SASKENERGY INCORPORATED
AND
SUBSIDIARIES

FINANCIAL STATEMENTS

December 31, 2008

SASKENERGY INCORPORATED AND SUBSIDIARIES
2008 FINANCIAL STATEMENTS
INDEX

1. SaskEnergy Incorporated – Consolidated
2. SaskEnergy Incorporated – Distribution Division
3. TransGas Limited
4. Many Islands Pipe Lines (Canada) Limited
5. Bayhurst Gas Limited
6. Swan Valley Gas Corporation
7. Saskatchewan First Call Corporation
8. SaskEnergy International Incorporated
9. SaskEnergy Nova Scotia Holdings Ltd.
10. Heritage Gas Limited

SASKENERGY INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

Deloitte.

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Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2008 and the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 17, 2009

SASKENERGY INCORPORATED

Consolidated Statement of Financial Position

As at December 31
(millions of dollars)

	2008	2007
Assets		
Current assets		
Cash	$ 4	$ 2
Accounts receivable (Note 5)	163	131
Natural gas in storage held for resale (Note 6)	199	149
Inventories of supplies (Note 7)	17	13
Debt retirement funds (Note 8)	-	3
Fair value of derivative instruments	46	26
	429	324
Property, plant and equipment (Note 9)	1,008	978
Natural gas in storage held for resale and operations (Note 6)	35	36
Debt retirement funds (Note 8)	48	40
Investments and other assets (Note 10)	41	33
	$ 1,561	$ 1,411
Liabilities and Province's Equity		
Current liabilities		
Short-term debt (Note 11)	$ 164	$ 88
Accounts payable (Note 12)	136	136
Dividends payable	6	7
Current portion of long-term debt (Note 11)	39	75
Fair value of derivative instruments	61	18
	406	324
Asset retirement obligations (Note 13)	8	8
Long-term debt (Note 11)	714	633
	1,128	965
Province of Saskatchewan's equity		
Retained earnings	364	379
Accumulated other comprehensive loss (Note 14)	(3)	(5)
	361	374
Equity advances (Note 15)	72	72
	433	446
	$ 1,561	$ 1,411

Commitments and contingencies (Note 16)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED
Consolidated Statement of Income and Retained Earnings

Years ended December 31
(millions of dollars)

	2008	2007
Revenue		
Commodity sales	$ **441**	$ 400
Gas marketing sales	**576**	485
Delivery	**182**	167
Transportation and storage	**77**	82
Revenue collected for municipalities (Note 18)	**25**	24
Other (Note 19)	**16**	13
	1,317	1,171
Expenses		
Commodity cost of gas sold	**479**	373
Gas marketing cost of gas sold	**539**	450
Operating and maintenance	**139**	132
Interest (Note 20)	**41**	43
Amortization (Note 9)	**56**	54
Payment to municipalities (Note 18)	**25**	24
Saskatchewan taxes (Note 21)	**8**	7
	1,287	1,083
Net income	**30**	**88**
Retained earnings, beginning of year	**379**	344
Change in accounting policy (Note 3)	**(2)**	-
Dividends	**(43)**	(53)
Retained earnings, end of year	$ **364**	$ 379

(See accompanying notes)

SASKENERGY INCORPORATED

Consolidated Statement of Comprehensive Income

Years ended December 31
(millions of dollars)

	2008		2007	
Net income	$	30	$	88
Other comprehensive income				
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year		-		1
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations		2		(3)
Comprehensive income	$	32	$	86

SASKENERGY INCORPORATED

Consolidated Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(millions of dollars)

	2008		2007	
Accumulated other comprehensive loss, beginning of year	$	(5)	$	(2)
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years		-		(1)
Other comprehensive income (loss)		2		(2)
Accumulated other comprehensive loss, end of year	$	(3)	$	(5)

(See accompanying notes)

SASKENERGY INCORPORATED
Consolidated Statement of Cash Flows

Years ended December 31
(millions of dollars)

	2008	2007
Operating Activities		
Net income	$ 30	$ 88
Add (deduct) items not requiring an outlay of cash		
Amortization	56	54
Change in fair value of derivative instruments	23	(21)
Debt retirement funds	(2)	(2)
Equity earnings	(2)	(2)
Asset retirement obligation	-	2
Other	1	2
	106	121
Net change in non-cash working capital related to operations (Note 22)	(86)	(19)
Decrease in natural gas in storage - non-current	1	-
Cash provided by operating activities	21	102
Investing Activities		
Additions to property, plant and equipment	(124)	(94)
Additions to investments and other assets	(5)	(4)
Capital contributions received (Note 9)	37	23
Acquisition	-	(6)
Increase in natural gas in storage - non-current	-	(4)
Cash used in investing activities	(92)	(85)
Financing Activities		
Decrease in bank indebtedness	-	(2)
Increase in short-term debt	75	19
Proceeds from long-term debt	120	75
Repayments of long-term debt (net)	(75)	(43)
Debt retirement fund installments	(6)	(5)
Debt retirement fund redemptions	3	-
Increase in deferred charges	-	(1)
Dividends paid	(44)	(58)
Cash provided by (used in) financing activities	73	(15)
Increase in cash during the year	2	2
Cash position, beginning of year	2	-
Cash position, end of year	$ 4	$ 2

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of SaskEnergy and its direct and indirect wholly owned subsidiaries, Bayhurst Gas Limited, Bayhurst Energy Services Corporation (and its ten wholly owned subsidiaries), Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd., Swan Valley Gas Corporation and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership, the Corporation's 50.1 per cent proportionate share of Heritage Gas Limited, accounted for as a joint venture, and the 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies. The impact of rate regulation on the application of GAAP is described in note 25. The following accounting policies are considered to be significant:

a. Natural gas in storage

Natural gas in storage is stated at the lower of cost and net realizable value and is accounted for on a weighted average cost basis.

2. Summary of Significant Accounting Policies (continued)

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or net realizable value. Replacement cost is used as management's best estimate of the net realizable value.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Computer hardware	20.0 to 33.3
Computer software	10.0 to 20.0
Vehicles, equipment and other	2.5 to 16.4

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Investments

The Corporation accounts for its investments in Gas Sur S.A. and IGASAMEX USA Ltd. using the equity method.

2. Summary of Significant Accounting Policies (continued)

e. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The associated asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated useful life of the related asset.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

f. Financial instruments

SaskEnergy classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Short-term debt, accounts payable, and dividends payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

2. Summary of Significant Accounting Policies (continued)

The Corporation uses hedge accounting for interest rate swaps used to hedge long-term debt. The effective portion of changes in the fair value is recognized in other comprehensive income while any ineffective portion of changes in the fair value is recognized immediately in interest expense. Gains and losses deferred in accumulated other comprehensive loss are reclassified in interest expense in the same period as the hedged item is settled. The Corporation uses hedge accounting for foreign currency forward contracts used to hedge capital expenditures denominated in a foreign currency. Gains or losses are recognized in other comprehensive income and reclassified to amortization expense over the life of the related capital asset. Interest rate swaps and foreign currency forward contracts may be designated as cash flow hedges.

Derivative financial instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 17.

Embedded derivatives are recorded at fair value on the statement of financial position.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Province of Saskatchewan's equity.

g. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed, is included in revenue.

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers and the ultimate collection is reasonably assured. An estimate of transportation, storage and related services rendered, but not billed, is included in revenue.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements and the ultimate collection is reasonably assured.

Natural gas and liquid sales, included in other revenue, is recognized when natural gas and natural gas liquids are delivered to customers and ultimate collection is reasonably assured.

2. Summary of Significant Accounting Policies (continued)

h. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas in the open market, derivative financial instrument settlements, fair value adjustments on outstanding derivative financial and non-financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

i. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. The gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

j. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both multiemployer plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

k. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for goodwill and intangible assets, Section 3064 – Goodwill and Intangible Assets, which is effective for fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At December 31, 2008, the impact of this section has not yet been determined but is not expected to have a material impact on the Corporation's financial statements for the year ended December 31, 2009.

2. Summary of Significant Accounting Policies (continued)

The CICA has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting of business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation's financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2008, SaskEnergy adopted the CICA Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 4.

Effective January 1, 2008, SaskEnergy adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replace the existing CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 17.

Effective January 1, 2008, SaskEnergy adopted the CICA Handbook Section 3031 – Inventories in accordance with the transition provisions. The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs to recognize subsequent increases to net realizable value. Also, guidance is provided related to reclassification of inventory items as property, plant and equipment. The standard requires retrospective application with no restatement of prior year results.

3. Changes in Accounting Policies (continued)

Upon the adoption of the new standard, SaskEnergy began using the weighted average cost method for valuing all natural gas inventories. The impact of applying this change in accounting policy effective January 1, 2008 was as follows:

	January 1, 2008 (millions)
Natural gas in storage held for resale	$ (5)
Total assets	$ (5)
Accounts payable	$ (3)
Retained earnings	(2)
Total liabilities and equity	$ (5)

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service to Saskatchewan residents, businesses and industries.

SaskEnergy finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to $1.3 billion of debt upon approval of the Lieutenant Governor in Council. As at December 31, 2008, SaskEnergy had $898 million of debt outstanding, authority to borrow an additional $249 million of temporary loans, and a $35 million uncommitted line of credit with Toronto-Dominion Bank.

The Corporation borrows all of its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from the Province of Saskatchewan. Given the Province of Saskatchewan's strong credit rating, the Corporation was able to acquire all of its funding requirements during 2008. SaskEnergy's borrowing requirement constitutes a minor portion of the Government of Saskatchewan's total expenditures.

The Corporation monitors capital on the basis of the debt ratio. The current long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publicly traded natural gas pipeline and distribution utilities. SaskEnergy adjusts its dividend payments to CIC to maintain its debt ratio at industry comparable levels. The purpose of this strategy is to ensure that SaskEnergy's debt is considered self supporting and does not adversely affect the Province's access to capital markets. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year.

4. Capital Disclosure (continued)

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2008	2007
	(millions)	
Gross long-term debt	**$ 753**	$ 708
Short-term debt	**164**	88
Debt retirement funds	**(48)**	(43)
Cash	**(4)**	(2)
Total net debt	**865**	751
Equity advances	**72**	72
Retained earnings	**364**	379
Total capital	**$ 1,301**	$ 1,202
Debt ratio	**66.5%**	62.5%

SaskEnergy complied with all externally imposed requirements on its capital for the year ended December 31, 2008.

5. Accounts Receivable

	2008	2007
	(millions)	
Unbilled revenue	**$ 44**	$ 79
Trade accounts	**114**	47
Other receivables	**5**	5
	$ 163	$ 131

6. Natural Gas in Storage Held for Resale and Operations

During the year, $959 million of natural gas in storage held for resale (2007 - $805 million) was recognized as cost of gas sold.

7. Inventories of Supplies

During the year, $2 million of inventories of supplies (2007 - $2 million) were expensed. There was no write-down of inventory of supplies and no reversal of any prior period write-down during 2008.

8. Debt Retirement Funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. These debt retirement funds are administered by Saskatchewan's Ministry of Finance. The investments held in these debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 5.8 per cent for 2008 (2007 - 3.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (millions)

2009	2010	2011	2012	2013
$ 7	$ 7	$ 6	$ 6	$ 6

9. Property, Plant and Equipment

	2008			2007		
	(millions)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Distribution	$ 753	$ 246	$ 507	$ 709	$ 228	$ 481
Transmission and storage	703	245	458	678	226	452
Gathering, treatment and compression	172	77	95	168	71	97
Vehicles, equipment and other	104	49	55	105	48	57
Computers	82	56	26	75	53	22
Franchise acquisition costs	2	1	1	2	-	2
Construction in progress	49	-	49	17	-	17
	$ 1,865	$ 674	1,191	$ 1,754	$ 626	1,128
Less:						
Unamortized customer capital contributions			183			150
			$ 1,008			$ 978

9. Property, Plant and Equipment (continued)

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2008 (millions)	2007 (millions)
Customer capital contributions, beginning of year	$ 150	$ 131
Contributions received	37	23
Amortization of contributions	(4)	(4)
Customer capital contributions, end of year	$ 183	$ 150

b. Amortization

	2008 (millions)	2007 (millions)
Amortization of property, plant and equipment	$ 60	$ 58
Amortization of customer capital contributions	(4)	(4)
	$ 56	$ 54

The estimated service lives are based on depreciation studies with annual reviews for reasonableness. During 2007, a depreciation study was conducted by an independent third party. As a result of this study, the amortization rates of certain distribution and other assets changed. The impact of this change was applied on a prospective basis commencing January 1, 2008. The estimated impact was a $1 million decrease to the amortization expense for the year ended December 31, 2008.

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.3 per cent during 2008 (2007 - 3.4 per cent).

10. Investments and Other Assets

Investments and other assets are as follows:

	2008		2007	
	Amount (millions)	Ownership (per cent)	Amount (millions)	Ownership (per cent)
Equity investments				
Gas Sur S.A.				
Initial investment	$ 14	30.0	$ 14	30.0
Accumulated equity earnings	4		3	
Foreign currency translation adjustment	(3)		(2)	
	15		15	
IGASAMEX USA Ltd.				
Initial investment	11	40.1	11	40.1
Accumulated equity earnings	3		2	
Foreign currency translation adjustment	(1)		(3)	
	13		10	
	28		25	
Other receivables	13		8	
	$ 41		$ 33	

Equity investments:

a. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2008 net income was $1 million (2007 - $1 million) which was included in other revenue. The Corporation's foreign currency translation adjustment for 2008 resulted in a $1 million reduction in the balance of the investment in Gas Sur S.A. (2007 - $1 million reduction). The initial cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5 million (2007 - $5 million).

b. IGASAMEX USA Ltd.

The Corporation's 40.1 per cent share of IGASAMEX USA Ltd.'s 2008 net income was $1 million (2007 - $1 million) which was included in other revenue. The Corporation's foreign currency translation adjustment for 2008 resulted in a $2 million increase in the balance of the investment in IGASAMEX USA Ltd. (2007 - $2 million reduction). The initial cost of the investment exceeded the Corporation's underlying share of the net book value of IGASAMEX USA Ltd. by approximately $5 million (2007 - $5 million).

11. Long-Term and Short-Term Debt

	2008		2007	
Years to Maturity	**Principal Outstanding** (millions)	**Average Fixed Interest Rate** (per cent)	**Principal Outstanding** (millions)	**Average Fixed Interest Rate** (per cent)
Province of Saskatchewan				
1 - 5	**$ 169**	**6.7**	$ 244	7.1
6 - 10	**259**	**4.7**	214	4.7
11 - 15	**34**	**6.7**	34	6.7
16 - 35	**285**	**6.5**	210	6.9
	747		702	
Unamortized premium/discount and issue costs	**(1)**		(1)	
Less due within one year	**(39)**		(75)	
Due to Province of Saskatchewan	**707**		626	
Other long-term debt	**7**	**9.5**	7	9.7
	$ 714		$ 633	

The effective interest rate on long-term debt was 5.9 per cent (2007 - 6.3 per cent).

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (millions)

2009	**2010**	**2011**	**2012**	**2013**
$ 39	$ 80	$ -	$ 50	$ -

c. Short-term debt

During 2008, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 2.5 per cent (2007 - 4.3 per cent).

Short-term debt at December 31, 2008 consists of $164 million (2007 - $88 million) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 1.4 per cent (2007 - 3.9 per cent).

12. Accounts Payable

	2008	2007
	(millions)	
Supplier payables	$ 77	$ 77
Interest payable	9	12
Other payables	50	47
	$ 136	$ 136

13. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For purposes of estimating the fair value of these obligations, as at December 31, a settlement period ranging from 2009 to 2016 has been assumed.

As at December 31, the estimated future cash flows required to settle these obligations were $10 million (2007 - $9 million), which were discounted to $8 million (2007 - $8 million) applying credit adjusted risk free rates ranging from 3.2 to 6.4 per cent.

	2008	2007
	(millions)	
Asset retirement obligations, beginning of year	$ 8	$ 6
Liabilities incurred	-	2
Asset retirement obligations, end of year	$ 8	$ 8

14. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2008	2007
	(millions)	
Unrealized losses on translating financial statements of self-sustaining foreign operations	$ (3)	$ (5)

15. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

16. Commitments and Contingencies

a. Guarantees

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5 million (United States dollars).

b. Letters of credit

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4 million (United States dollars) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to IGASAMEX USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if IGASAMEX USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

ii. The Corporation has posted a $10 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of, natural gas as per the related contract.

c. Leases

Future payments under operating leases are as follows: (millions)

2009	2010	2011	2012	2013	Thereafter	Total
$ 4	$ 4	$ 3	$ -	$ -	$ -	$ 11

17. Financial Instruments and Risk Management

a. Financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions)			
Other liabilities				
Long-term debt	$ 753	$ 853	$ 708	$ 798
Held-for-trading				
Debt retirement funds	48	48	43	43

The fair value of the above instruments was based on the following:

i. Long-term debt – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the debt retirement fund as determined by Saskatchewan's Ministry of Finance.

The fair value of other financial instruments, including cash, accounts receivable, bank indebtedness, short-term debt, accounts payable and dividends payable approximate their carrying values due to the short-term nature of the instruments.

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The fair value of natural gas price options is determined using the Garman-Kohlhagen model which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices, which are each based on external market sources. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative instruments, the notional value is the difference between the contract price and the market price. SaskEnergy has sufficient borrowing capacity to fund these contractual obligations. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31, 2008 has been used to estimate the contract price. At December 31, 2008, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

17. Financial Instruments and Risk Management (continued)

As at December 31, 2008, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

	2009	2010	2011	2012	2013	Total
			(millions)			
Physical natural gas contracts						
Fair value	$ 10	$ 1	$ -	$ -	$ -	$ 11
Notional value	(228)	10	4	1	-	(213)
Natural gas price swaps						
Fair value	(17)	1	-	-	-	(16)
Notional value	(17)	1	-	-	-	(16)
Natural gas price options						
Fair value	(10)	-	-	-	-	(10)
Notional value	(8)	-	-	-	-	(8)
Total						
Fair value	$ (17)	$ 2	$ -	$ -	$ -	$ (15)
Notional value	$ (253)	$ 11	$ 4	$ 1	$ -	$ (237)

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

c. Changes in fair value

The fair value of derivative instruments is presented on the consolidated statement of financial position as follows:

	2008	2007
	(millions)	
Fair value of derivative instrument assets	$ 46	$ 26
Fair value of derivative instrument liabilities	(61)	(18)
	$ (15)	$ 8

17. Financial Instruments and Risk Management (continued)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the increase (decrease) in net income of these unrealized gains and losses was as follows:

	2008	2007
	(millions)	
Derivative instruments		
Gas marketing sales	$ 31	$ 8
Commodity cost of gas sold	(47)	18
Gas marketing cost of gas sold	(9)	(6)
	(25)	20
Financial instruments		
Gas marketing cost of gas sold	1	-
Interest expense	(1)	-
(Decrease) increase in net income	$ (25)	$ 20

d. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used. The objectives, policies and processes for managing risk were consistent with the prior year.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments SaskEnergy may use for price risk management include natural gas price swaps, options, swaptions and futures contracts.

Based on the Corporation's December 31, 2008 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas contracts, by $7 million. Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas contracts, by $7 million.

17. Financial Instruments and Risk Management (continued)

ii. Foreign currency exchange and interest rate risk

The Corporation may use derivative financial instruments to manage the interest rate risk on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options and interest rate swaps to achieve an annual average interest rate target. During the year ended December 31, 2008 the Corporation did not enter into or settle any such instruments.

For the purpose of managing the exchange rate risk on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options. During the year ended December 31, 2008 the impact of these instruments on net income was $nil (2007 - $nil).

At year end, the Corporation had $164 million of short-term debt which is refinanced quarterly. In addition, $39 million of long-term debt will mature in 2009 at which time it will be refinanced. Based on the short-term debt balance as at December 31, 2008 and the long-term debt maturing in 2009, a one per cent change in interest rates would increase or decrease the annual interest expense by approximately $2 million.

iii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2008:

	6 months or less	**7 - 12 months**	**1 - 2 years**	**3 - 5 years**	**More than 5 years**
			(millions)		
Short-term debt	$ 164	$ -	$ -	$ -	$ -
Accounts payable	136	-	-	-	-
Dividends payable	6	-	-	-	-
Derivative instruments	183	71	-	-	-
Long-term debt	33	50	120	153	944
Debt retirement fund installments	4	4	7	18	63
	$ 526	$ 125	$ 127	$ 171	$ 1,007

The long-term debt obligations include principal and interest payments.

17. Financial Instruments and Risk Management (continued)

iv. Credit risk

The Corporation is exposed to credit risk through cash, accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At December 31, 2008 the maximum credit exposure to a single counterparty was $14 million (2007 - $8 million).

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with creditworthy counterparties in accordance with established credit approval policies.

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2008	2007
	(millions)	
Cash	**$ 4**	$ 2
Accounts receivable	**163**	131
Debt retirement funds	**48**	43
Fair value of derivative instrument assets	**46**	26
Maximum credit exposure	**$ 261**	$ 202

17. Financial Instruments and Risk Management (continued)

The following reflects an aging summary of the Corporation's accounts receivable:

	2008	2007
	(millions)	
Current	$ 158	$ 127
30 - 59 days	3	4
60 - 89 days	1	1
Greater than 90 days	2	-
	164	132
Allowance for doubtful accounts	(1)	(1)
	$ 163	$ 131

Provisions for credit losses are maintained and regularly reviewed by the Corporation. Credit losses are estimated based on an aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance are as follows:

	2008	2007
	(millions)	
Allowance for doubtful accounts, beginning of year	$ 1	$ 2
Provision	1	1
Recoveries	2	2
Write-offs	(3)	(4)
Allowance for doubtful accounts, end of year	$ 1	$ 1

18. Revenue Collected For and Paid to Municipalities

a. Natural gas distribution

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of income. In 2008, revenue collected for and paid to municipalities was $23 million (2007 - $21 million).

18. Revenue Collected For and Paid to Municipalities (continued)

b. Natural gas transmission

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the statement of income. In 2008, revenue collected for and paid to municipalities was $2 million (2007 - $3 million).

19. Other Revenue

	2008	2007
	(millions)	
Royalty revenue	$ 6	$ 5
Natural gas and liquid sales	8	6
Income from investments accounted for by the equity method	2	2
	$ 16	$ 13

20. Interest Expense

	2008	2007
	(millions)	
Interest expense on long-term debt	$ 41	$ 44
Interest expense on short-term debt	4	2
Amortization of debt premium/discount and issue costs	1	1
Debt retirement funds earnings	(3)	(2)
Debt retirement funds fair value adjustment	1	-
Interest capitalized	(1)	-
Interest allocation to commodity cost of gas sold	(2)	(2)
	$ 41	$ 43

Interest paid during 2008 on long-term debt was $44 million (2007 - $44 million).

21. Saskatchewan Taxes

	2008	2007
	(millions)	
Corporate capital tax	$ **6**	$ 5
Property taxes and other	**2**	2
	$ **8**	$ 7

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

22. Net Change in Non-Cash Working Capital

	2008	2007
	(millions)	
Accounts receivable	$ **(32)**	$ 8
Natural gas in storage held for resale	**(50)**	(25)
Inventories of supplies	**(4)**	(6)
Accounts payable	**-**	4
	$ **(86)**	$ (19)

23. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2008	2007
	(millions)	
Revenue	$ **48**	$ 49
Operating expenses	**32**	29
Customer capital contributions	**35**	14
Accounts receivable	**3**	2
Accounts payable	**1**	1

23. Related Party Transactions (continued)

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

24. Employee Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $4 million (2007 - $4 million) on behalf of employees for current services.

b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2008	**2007**
	(millions)	
Accrued benefit liability	**$ 14**	$ 16
Benefits paid during the year	**1**	1
Net expense	**(1)**	3

The Corporation measures its accrued benefit liability as at December 31 of each year with an annual actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2008	**2007**
Discount rate	**7.1 per cent**	5.0 per cent
Inflation rate	**2.5 per cent**	2.5 per cent
Average remaining employee service life	**8.3 years**	9.0 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

25. Rate Regulation

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation, except where specifically noted. The impact of rate regulation on the Corporation was as follows:

a. SaskEnergy Incorporated

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order in Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity and delivery revenue are as described in note 2g. SaskEnergy's delivery revenue was $171 million for 2008 (2007 - $158 million) and commodity revenue was $432 million for 2008 (2007 - $395 million).

Cost of gas sold is accounted for in accordance with the policy described in note 2h.

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate-setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies described in note 2g. The amounts accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

b. TransGas Limited (TransGas)

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2g. TransGas transportation revenue was $60 million for 2008 (2007 - $66 million).

25. Rate Regulation (continued)

c. Many Islands Pipe Lines (Canada) Limited (MIPL)

The business activities of MIPL are regulated by the National Energy Board.

Revenue recognition policies for MIPL transportation revenue are as described in note 2g. MIPL transportation revenue was $1 million for 2008 (2007 - $1 million).

d. Swan Valley Gas Corporation (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. SVGC's delivery revenue was $1 million for 2008 (2007 - $1 million) and commodity revenue was $1 million for 2008 (2007 - $1 million).

e. Heritage Gas Limited (Heritage Gas)

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest:

i. Return on rate base

Heritage Gas is allowed to earn a return on its rate base intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The rate base is the aggregate of Heritage Gas' investment in property, plant and equipment, revenue deficiency account and deferred charges, less accumulated amortization, plus working capital excluding the interest-free loan from the Province of Nova Scotia. The return is based on Heritage Gas' regulated capital structure as approved by the NSUARB.

ii. Regulatory process – delivery tariff

Heritage Gas' delivery tariffs are determined through a General Tariff Application (GTA) process which establishes the revenue requirement and the rates to be charged to various customer classes as approved by the NSUARB. The most recent completed GTA process occurred in 2006 which established the Company's revenue requirement and rates to be charged to various customer classes for the period January 1, 2007 - December 31, 2011.

iii. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use an RDA until it is fully recovered. The RDA changes based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return, and the RDA will be drawn down.

25. Rate Regulation (continued)

The RDA, included in investments and other assets, as at December 31, 2008 was $13 million (2007 - $9 million). The effect of the RDA accumulation was to increase revenue in 2008 by $4 million (2007 - $3 million). In the absence of rate-regulated accounting, GAAP would not have permitted the RDA to be recorded.

iv. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The calculation method and rate of AFUDC have been approved by the NSUARB.

v. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses to 2011. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

vi. Income taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

26. Joint Ventures

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent proportionate share of Heritage Gas, accounted for as a joint venture, and its 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture:

a. Consolidated statement of financial position

	2008	2007
	(millions)	
Current assets	$ 4	$ 4
Property, plant and equipment	51	43
Regulatory receivable	13	8
Current liabilities	(4)	(6)
Investment in joint ventures	$ 64	$ 49

b. Consolidated statement of income

	2008	2007
	(millions)	
Revenue	$ 18	$ 10
Expenses	(12)	(6)
Income from joint ventures	$ 6	$ 4

c. Consolidated statement of cash flows

	2008	2007
	(millions)	
Cash (used in) provided by operating activities	$ (1)	$ 1
Cash used in investing activities	(9)	(11)
Decrease in cash	$ (10)	$ (10)

27. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

2

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION

FINANCIAL STATEMENTS

December 31, 2008

Deloitte.

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Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of SaskEnergy Incorporated – Distribution Division as at December 31, 2008 and the statements of loss and deficit, comprehensive loss, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Distribution Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Distribution Division as at December 31, 2008, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 17, 2009

Member of
Deloitte Touche Tohmatsu

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2008	2007
Assets		
Current assets		
Accounts receivable (Note 5)	$ 146,150	$ 113,730
Intercompany accounts receivable	25,051	8,053
Natural gas in storage held for resale (Note 6)	111,873	78,061
Inventories of supplies (Note 7)	14,609	10,819
Debt retirement funds (Note 8)	-	3,012
Fair value of derivative instruments	46,426	22,819
	344,109	236,494
Property, plant and equipment (Note 9)	441,426	420,732
Debt retirement funds (Note 8)	14,435	11,977
	$ 799,970	$ 669,203
Liabilities and Holdings Division's Equity		
Current liabilities		
Bank indebtedness	$ 173,451	$ 87,895
Accounts payable (Note 10)	98,552	96,117
Intercompany accounts payable	8,612	8,730
Dividends payable	-	6,411
Current portion of notes payable to Holdings Division (Note 11)	16,034	45,537
Fair value of derivative instruments	74,088	17,257
	370,737	261,947
Notes payable to Holdings Division (Note 11)	265,336	206,353
	636,073	468,300
Holdings Division's equity		
(Deficit) retained earnings	(4,037)	32,607
Accumulated other comprehensive income	984	1,346
	(3,053)	33,953
Equity advances (Note 14)	166,950	166,950
	163,897	200,903
	$ 799,970	$ 669,203

Commitments and contingencies (Note 13)
(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Loss and Deficit

Years ended December 31
(thousands of dollars)

	2008	2007
Revenue		
Commodity sales	$ 434,848	$ 395,343
Gas marketing sales	672,976	376,298
Delivery	179,994	166,926
Revenue collected for municipalities (Note 16)	22,972	21,313
Other	2,942	2,586
	1,313,732	962,466
Expenses		
Commodity cost of gas sold	495,040	375,369
Gas marketing cost of gas sold	662,047	369,349
Operating and maintenance	84,280	81,173
Transportation and storage	37,766	37,490
Amortization (Note 9)	25,922	25,537
Interest (Note 15)	14,393	15,651
Payments to municipalities (Note 16)	22,972	21,313
Saskatchewan taxes (Note 17)	3,659	3,015
	1,346,079	928,897
(Loss) net income	(32,347)	33,569
Retained earnings, beginning of year	32,607	14,097
Change in accounting policy (Note 3)	(2,605)	-
Dividends	(1,692)	(15,059)
(Deficit) retained earnings, end of year	$ (4,037)	$ 32,607

(See accompanying notes)

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2008	2007
(Loss) net income	**$ (32,347)**	$ 33,569
Other comprehensive income		
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	**(362)**	6,185
Comprehensive (loss) income	**$ (32,709)**	$ 39,754

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Accumulated Other Comprehensive Income

Years ended December 31
(thousands of dollars)

	2008	2007
Accumulated other comprehensive income, beginning of year	**$ 1,346**	$ -
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years	-	(4,839)
Other comprehensive income	**(362)**	6,185
Accumulated other comprehensive income, end of year	**$ 984**	$ 1,346

(See accompanying notes)

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2008	2007
Operating Activities		
(Loss) net income	$ (32,347)	$ 33,569
Add (deduct) items not requiring an outlay of cash		
Amortization	25,922	25,537
Change in fair value of derivative instruments	33,224	(18,865)
Debt retirement funds	(713)	(632)
Other	(2,848)	2,406
	23,238	42,015
Net change in non-cash working capital related to operations (Note 18)	(84,703)	10,418
Cash (used in) provided by operating activities	(61,465)	52,433
Investing Activities		
Net additions to property, plant and equipment	(58,475)	(43,538)
Capital contributions received	11,859	5,614
Cash used in investing activities	(46,616)	(37,924)
Financing Activities		
Increase in bank indebtedness	85,556	24,091
Issue of notes payable to Holdings Division	75,000	10,000
Repayment of notes payable to Holdings Division	(45,537)	(37,254)
Increase in deferred charges	-	(552)
Debt retirement funds redemptions	3,105	3,744
Debt retirement funds installments	(1,940)	(2,390)
Dividends paid	(8,103)	(12,148)
Cash provided by (used in) financing activities	108,081	(14,509)
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Incorporated is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy has the legislated franchise right to distribute natural gas in Saskatchewan.

There are two separate divisions (business units) within SaskEnergy. These financial statements reflect only the results of operations of the natural gas distribution utility referred to as the Distribution Division, the Corporation or SaskEnergy. The other division is referred to as the Holdings Division.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies. The impact of rate regulation on the application of GAAP is described in note 21. The following accounting policies are considered to be significant:

a. Natural gas in storage

Natural gas in storage is stated at the lower of cost and net realizable value and is accounted for on a weighted average cost basis.

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or net realizable value. Replacement cost is used as management's best estimate of the net realizable value.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

2. Summary of Significant Accounting Policies (continued)

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Distribution		Buildings	4.0
- Stations	3.8	Leasehold improvements	Lease term
- Mains (urban)	2.3	Computers	
- Services (urban)	3.5	- hardware	20.0 to 33.3
- Meters	4.0	- software	10.0 to 20.0
- Mains and services		Vehicles, tools and equipment	4.0 to 12.5
(rural)	2.3	Furniture and fixtures	5.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

2. Summary of Significant Accounting Policies (continued)

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Accounts payable, intercompany accounts payable and dividends payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are amortized into interest expense using the effective interest rate method.

Derivative financial instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 12.

Embedded derivatives are recorded at fair value on the statement of financial position.

e. Revenue recognition

Delivery and commodity sales revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed is included in revenue.

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

f. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas in the open market, derivative financial instrument settlements, fair value adjustments on outstanding derivative instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

2. Summary of Significant Accounting Policies (continued)

g. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. The gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

h. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both multiemployer plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

i. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for goodwill and intangible assets, Section 3064 – Goodwill and Intangible Assets, which is effective for fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At December 31, 2008, the impact of this section has not yet been determined but is not expected to have a material impact on the Corporation's financial statements for the year ended December 31, 2009.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 4.

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replace the existing CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 12.

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3031 – Inventories in accordance with the transition provisions. The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs to recognize subsequent increases to net realizable value. Also, guidance is provided related to reclassification of inventory items as property, plant and equipment. The standard requires retrospective application with no restatement of prior year results.

3. Changes in Accounting Policies (continued)

Upon the adoption of the new standard, the Corporation began using the weighted average cost method for valuing all natural gas inventories. The impact of applying this change in accounting policy effective January 1, 2008 was as follows:

	January 1, 2008 (thousands)
Natural gas in storage held for resale	$ (2,605)
Total assets	$ (2,605)
Retained earnings	$ (2,605)
Total liabilities and equity	$ (2,605)

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service to Saskatchewan residents, businesses and industries.

The Corporation's capital consists of long-term debt having a term to maturity greater than one year and equity.

The Corporation monitors capital on the basis of the debt ratio. The current long-term per cent debt ratio target is 67 per cent, which is consistent with the prior year and comparable to publicly traded natural gas distribution utilities. The Distribution Division adjusts its dividend payments to the Holdings Division to maintain its debt ratio at industry comparable levels. The Corporation's objectives, policies and processes for managing its capital as well as the debt ratio target are consistent with the prior year.

4. Capital Disclosure (continued)

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2008	2007
	(thousands)	
Notes payable to Holdings Division	$ 281,370	$ 251,890
Bank indebtedness	173,451	87,895
Debt retirement funds	(14,435)	(14,989)
Total net debt	440,386	324,796
Equity advances	166,950	166,950
(Deficit) retained earnings	(4,037)	32,607
Total capital	$ 603,299	$ 524,353
Debt ratio	73.0%	61.9%

The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2008.

5. Accounts Receivable

	2008	2007
	(thousands)	
Unbilled revenue	$ 105,950	$ 71,597
Trade accounts	37,737	40,226
Other receivables	2,463	1,907
	$ 146,150	$ 113,730

6. Natural Gas in Storage Held for Resale

During the year, $1,099,942 thousand of natural gas in storage held for resale was recognized as cost of gas sold (2007 - $393,141 thousand).

7. Inventories of Supplies

During the year, $1,369 thousand of inventories of supplies (2007 - $1,394 thousand) was expensed.

8. Debt Retirement Funds

The Corporation has received long-term debt from the Province of Saskatchewan's General Revenue Fund. The terms and conditions of this debt require (on an annual basis) the investment of an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. The yield on these investments was 5.8 per cent for 2008 (2007 - 3.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement funds in each of the next five years are as follows: (thousands)

2009	2010	2011	2012	2013
$ 2,690	$ 2,690	$ 2,690	$ 2,690	$ 2,690

9. Property, Plant and Equipment

	2008			2007		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Mains and services	**$ 602,632**	**$ 201,719**	**$ 400,913**	$ 564,080	$ 189,495	$ 374,585
Regulator stations	**69,697**	**25,039**	**44,658**	66,082	21,789	44,293
Metering	**39,119**	**18,035**	**21,084**	38,237	16,385	21,852
Computer systems	**33,294**	**16,001**	**17,293**	30,508	15,064	15,444
Vehicles, equipment	**40,232**	**20,206**	**20,026**	39,230	20,660	18,570
Tools, buildings and furniture	**40,280**	**15,957**	**24,323**	36,973	13,731	23,242
	$ 825,254	**$ 296,957**	**528,297**	$ 775,110	$ 277,124	497,986
Less:						
Unamortized customer capital contributions			**86,871**			77,254
			$ 441,426			$ 420,732

9. Property, Plant and Equipment (continued)

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2008	2007
	(thousands)	
Balance, beginning of year	**$ 77,254**	$ 74,087
Contributions received	**11,859**	5,614
Amortization of contributions	**(2,242)**	(2,447)
Balance, end of year	**$ 86,871**	$ 77,254

b. Amortization

	2008	2007
	(thousands)	
Amortization of property, plant and equipment	**$ 28,164**	$ 27,984
Amortization of customer capital contributions	**(2,242)**	(2,447)
	$ 25,922	$ 25,537

The estimated service lives are based on depreciation studies with annual reviews for reasonableness. During 2007, a depreciation study was conducted by an independent third party. As a result of this study, the amortization rates of certain distribution and other assets changed. The impact of this change was applied on a prospective basis commencing January 1, 2008. The estimated impact was a $1,163 thousand decrease to the amortization expense for the year ended December 31, 2008.

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.6 per cent during 2008 (2007 - 3.8 per cent).

Included in distribution assets is an amount net of amortization of $10,648 thousand (2007 - $3,086 thousand) paid to TransGas Limited (an affiliate) as a contribution in aid of construction of certain pipeline facilities. Amortization expense related to this amount in 2008 was $108 thousand (2007 - $104 thousand).

10. Accounts Payable

	2008	2007
	(thousands)	
Supplier payables	$ 63,870	$ 56,341
Other payables	34,682	39,776
	$ 98,552	$ 96,117

11. Notes Payable to Holdings Division

	2008		2007	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
1 - 5	$ 16,034	9.8	$ 61,571	7.8
6 - 10	60,000	4.7	60,000	4.7
11 - 30	208,971	6.2	133,971	6.2
	285,005		255,542	
Unamortized discount/issue costs	(3,635)		(3,652)	
Less due within one year	(16,034)		(45,537)	
	$ 265,336		$ 206,353	

The effective interest rate on notes payable to Holdings Division was 6.1 per cent (2007 - 6.5 per cent).

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (thousands)

2009	2010	2011	2012	2013
$ 16,034	$ -	$ -	$ -	$ -

12. Financial Instruments and Risk Management

a. Financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2008		2007	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(thousands)			
Other liabilities				
Notes payable to Holdings Division	**$ 285,005**	**$ 318,459**	$ 255,542	$ 284,881
Held-for-trading				
Debt retirement funds	**14,435**	**14,435**	14,989	14,989

The fair values of the above instruments were based on the following:

i. Notes payable to Holdings Division – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the debt retirement funds as determined by Saskatchewan's Ministry of Finance.

The fair value of other financial instruments, including accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable, and intercompany accounts payable approximate their carrying values due to the short-term nature of the instruments.

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The fair value of natural gas price options is determined using the Garman-Kohlhagen model which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices, which are each based on external market sources. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31 has been used to estimate the contract price. At December 31, 2008, all derivative asset and liabilities held-for-trading are recorded on the statement of financial position at fair value.

12. Financial Instruments and Risk Management (continued)

As at December 31, 2008, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities.

	2009	**2010**	**2011**	**2012**	**2013**	**Total**
			(thousands)			
Physical natural gas contracts						
Fair value	$ 1,254	$ 1,259	$ 200	$ (178)	$ 87	$ 2,622
Notional value	(268,943)	8,591	(3,523)	(6,208)	484	(269,599)
Natural gas price swaps						
Fair value	(21,172)	1,040	92	261	(40)	(19,819)
Notional value	(21,172)	1,040	92	261	(40)	(19,819)
Natural gas price options						
Fair value	(10,465)	-	-	-	-	(10,465)
Notional value	(8,142)	-	-	-	-	(8,142)
Total						
Fair value	$ (30,383)	$ 2,299	$ 292	$ 83	$ 47	$ (27,662)
Notional value	$ (298,257)	$ 9,631	$(3,431)	$(5,947)	$ 444	$ (297,560)

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

c. Change in fair value

The fair value of derivative instruments is presented on the statement of financial position as follows:

	2008	**2007**
	(thousands)	
Fair value of derivative instrument assets	**$ 46,426**	$ 22,819
Fair value of derivative instrument liabilities	**(74,088)**	(17,257)
	$ (27,662)	$ 5,562

12. Financial Instruments and Risk Management (continued)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the impact on net income of these unrealized gains and losses was as follows:

	2008	2007
	(thousands)	
Derivative instruments		
Gas marketing sales	$ **33,691**	$ 6,700
Commodity cost of gas sold	**(47,473)**	17,851
Gas marketing cost of gas sold	**(20,644)**	(7,253)
	(34,426)	17,298
Financial instruments		
Interest expense	**(205)**	(95)
(Decrease) increase in net income	$ **(34,631)**	$ 17,203

d. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used. The objectives, policies and processes for managing risk were consistent with the prior year.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation uses for price risk management include natural gas price swaps, options, swaptions, and futures contracts.

Based on the Corporation's December 31, 2008 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $17,348 thousand. Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas contracts, by $17,348 thousand.

12. Financial Instruments and Risk Management (continued)

ii. Foreign currency exchange

The Corporation may use derivative financial instruments to manage the foreign currency exchange rate on foreign currency denominated transactions.

For the purpose of managing the exchange rate risk on transactions denominated in foreign currency, the Corporation may use currency forwards and currency options. During the year ended December 31, 2008 the impact of these instruments on net income was $8 thousand (2007 - $nil).

iii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For the following financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2008:

	6 months or less	**7-12 months**	**1-2 years**	**3-5 years**	**More than 5 years**
			(thousands)		
Accounts payable	$ 98,552	$ -	$ -	$ -	$ -
Intercompany accounts payable	8,612	-	-	-	-
Derivative instruments	195	104	-	8,934	-
Notes payable to Holdings Division	12,627	19,781	15,031	45,094	493,326
Debt retirement funds installments	1,754	936	2,690	8,069	40,778
	$ 121,740	$20,821	$17,721	$62,097	$534,104

The notes payable to Holdings Division obligations includes principal and interest payments.

12. Financial Instruments and Risk Management (continued)

iv. Credit risk

The Corporation is exposed to credit risk through cash, accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At December 31, 2008 the maximum credit exposure to a single counterparty was $14,136 thousand (2007 - $7,652 thousand).

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with creditworthy counterparties in accordance with established credit approval policies.

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2008	2007
	(thousands)	
Accounts receivable	**$ 146,150**	$ 113,730
Intercompany accounts receivable	**25,051**	8,053
Debt retirement funds	**14,435**	11,977
Fair value of derivative instruments assets	**46,426**	22,819
Maximum credit exposure	**$ 232,062**	$ 156,579

12. Financial Instruments and Risk Management (continued)

The following reflects an aging summary of the Corporation's accounts receivable:

	2008	2007
	(thousands)	
Current	**$ 142,318**	$ 109,051
30 - 59 days	**2,727**	4,186
60 - 89 days	**1,176**	1,102
Greater than 90 days	**929**	391
	147,150	114,730
Allowance for doubtful accounts	**(1,000)**	(1,000)
	$ 146,150	$ 113,730

Provisions for credit losses are maintained and regularly reviewed by the Corporation. Credit losses are estimated based on an aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance are as follows:

	2008	2007
	(thousands)	
Allowance for doubtful accounts, beginning of year	**$ 1,000**	$ 1,400
Provision	**1,189**	896
Recoveries	**1,695**	2,249
Write-offs	**(2,884)**	(3,545)
Allowance for doubtful accounts, end of year	**$ 1,000**	$ 1,000

13. Commitments and Contingencies

The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if the Corporation fails to make timely payment for, or delivery of natural gas as per the related contract.

14. Equity Advances

The Distribution Division does not have share capital. However, the Distribution Division has received equity advances from the Holdings Division to form its equity capitalization. The advances reflect an equity investment in the Distribution Division by the Holdings Division.

15. Interest Expense

	2008	2007
	(thousands)	
Interest expense on notes payable to Holdings Division	**$ 14,096**	$ 16,483
Interest expense on bank indebtedness	**3,076**	2,085
Amortization of debt premium/discount and issue costs	**17**	68
Debt retirement funds earnings	**(918)**	(727)
Debt retirement funds fair value adjustment	**205**	95
Interest capitalized	**(265)**	(167)
Interest allocation to commodity cost of gas sold	**(1,818)**	(2,186)
	$ 14,393	$ 15,651

Interest paid during 2008 on notes payable to Holdings Division was $18,187 thousand (2007 - $16,789 thousand).

16. Revenue Collected for and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five percent or three percent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of income.

17. Saskatchewan Taxes

	2008	2007
	(thousands)	
Corporate capital tax	**$ 3,471**	$ 2,819
Property tax	**188**	196
	$ 3,659	$ 3,015

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

18. Net Change in Non-Cash Working Capital

	2008	2007
	(thousands)	
Accounts receivable	$ (32,420)	$ 12,431
Intercompany accounts receivable	(16,998)	104
Natural gas in storage held for resale	(33,812)	7,797
Inventories of supplies	(3,790)	(5,072)
Accounts payable	2,435	(6,024)
Intercompany accounts payable	(118)	1,182
	$ (84,703)	$ 10,418

19. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

a. Included in these financial statements are transactions with the Holdings Division and the Corporation's subsidiaries as follows:

	2008	2007
	(thousands)	
Commodity Sales	$ 3,250	$ -
Gas marketing sales	94,038	5,008
Delivery revenue	9,345	9,095
Commodity cost of gas sold	31,605	1,986
Gas marketing cost of gas sold	184,096	56,595
Transportation and storage	36,949	36,973
Interest expense	16,135	17,691
Natual gas in storage held for resale	4,968	447
Fair value of derivative instruments assets	4,234	342
Sale of property, plant and equipment	47	7
Fair value of derivative instruments liabilities	13,136	601

Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

19. Related Party Transactions (continued)

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and the amounts outstanding at year end, are as follows:

	2008	2007
	(thousands)	
Revenue	$ 34,065	$ 29,441
Operating expenses	24,412	18,488
Accounts receivable	1,985	1,719
Customer capital contributions	924	1,179
Accounts payable	614	406

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

20. Employees' Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $3,278 thousand (2007 - $2,738 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2008	2007
	(thousands)	
Accrued benefit liability	$ 10,391	$ 11,523
Benefits paid during the year	623	790
Net expense	(339)	2,045

20. Employees' Future Benefits (continued)

The Corporation measures its accrued benefit liability as at December 31 of each year with an annual actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2008	**2007**
Discount rate	**7.1 per cent**	5.0 per cent
Inflation rate	**2.5 per cent**	2.5 per cent
Average remaining employee service life	**8.4 years**	9.0 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

21. Rate Regulation

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation, except where specifically noted. The impact of rate regulation on the Corporation was as follows:

By virtue of legislation, SaskEnergy's Distribution Division has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order-in-Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's Distribution Division commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity sales and delivery revenue are as described in note 2e. SaskEnergy's Distribution Division delivery revenue was $179,994 thousand for 2008 (2007 - $166,926 thousand) and commodity revenue was $434,848 thousand for 2008 (2007 - $395,343 thousand).

Commodity cost of gas sold is accounted for in accordance with the policy described in note 2f.

21. Rate Regulation (continued)

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy's Distribution Division neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity sales revenue and commodity cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the differences reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate-setting process, commodity sales revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies described in note 2e. The amounts accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

22. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

TRANSGAS LIMITED

FINANCIAL STATEMENTS

December 31, 2008

Deloitte & Touche LLP
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Regina SK S4P 3Z8
Canada

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Auditors' Report

To the Shareholder of TransGas Limited

We have audited the statement of financial position of TransGas Limited as at December 31, 2008 and the statements of income and retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 17, 2009

TRANSGAS LIMITED
Statement of Financial Position

As at December 31
(thousands of dollars)

	2008	2007
Assets		
Current assets		
Cash	$ 39,545	$ -
Accounts receivable (Note 5)	9,218	11,820
Intercompany accounts receivable	5,707	3,740
Natural gas in storage held for resale (Note 6)	12,486	16,325
Inventories of supplies (Note 7)	1,849	1,737
Fair value of derivative instruments	8,154	1,781
	76,959	35,403
Property, plant and equipment (Note 8)	492,804	491,733
Natural gas in storage held for operations	33,181	33,446
Debt retirement funds (Note 9)	28,526	24,021
	$ 631,470	$ 584,603
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ -	$ 12,425
Accounts payable (Note 10)	22,078	18,133
Intercompany accounts payable	27,101	17,169
Dividends payable	3,684	3,108
Current portion of long-term debt (Note 11)	22,422	28,718
Fair value of derivative instruments	4,204	311
	79,489	79,864
Long-term debt (Note 11)	352,057	310,310
Asset retirement obligations (Note 12)	5,111	4,900
	436,657	395,074
Shareholder's equity		
Retained earnings	190,439	185,155
Accumulated other comprehensive income	373	373
	190,812	185,528
Share capital (Note 13)	4,001	4,001
	194,813	189,529
	$ 631,470	$ 584,603

(See accompanying notes)

On behalf of the Board:

Director

Director

TRANSGAS LIMITED
Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2008	2007
Revenue		
Transportation and storage	$ 119,382	$ 124,308
Gas marketing sales	72,235	90,627
Revenue collected for municipalities (Note 15)	2,413	2,433
Other revenue (Note 16)	7,287	6,245
	201,317	223,613
Expenses		
Gas marketing cost of gas sold	66,661	87,933
Operating and maintenance	64,498	60,606
Interest (Note 17)	21,171	23,685
Amortization (Note 8)	26,365	25,535
Payments to municipalities (Note 15)	2,413	2,433
Saskatchewan taxes (Note 18)	3,013	2,699
	184,121	202,891
Net income	17,196	20,722
Retained earnings, beginning of year	185,155	175,360
Change in accounting policy (Note 3)	409	-
Dividends	(12,321)	(10,927)
Retained earnings, end of year	$ 190,439	$ 185,155

(See accompanying notes)

TRANSGAS LIMITED
Statement of Comprehensive Income
Years ended December 31
(thousands of dollars)

	2008	2007
Net income	$ 17,196	$ 20,722
Other comprehensive loss		
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	-	(1,506)
Comprehensive income	$ 17,196	$ 19,216

TRANSGAS LIMITED
Statement of Accumulated Other Comprehensive Income
Years ended December 31
(thousands of dollars)

	2008	2007
Accumulated other comprehensive income, beginning of year	$ 373	$ -
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years	-	1,879
Other comprehensive loss	-	(1,506)
Accumulated other comprehensive income, end of year	$ 373	$ 373

(See accompanying notes)

TRANSGAS LIMITED
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2008	2007
Operating Activities		
Net income	$ **17,196**	$ 20,722
Add (deduct) items not requiring an outlay of cash		
Amortization	**26,365**	25,535
Asset retirement obligations	**211**	158
Change in fair value of derivatives	**(2,480)**	(1,478)
Debt retirement funds	**(1,274)**	(854)
Other	**1,059**	710
	41,077	44,793
Net change in non-cash working capital related to operations (Note 19)	**18,239**	(3,457)
Cash provided by operating activities	**59,316**	41,336
Investing Activities		
Net additions to property, plant and equipment	**(61,441)**	(36,331)
Capital contributions received (Note 8)	**34,005**	16,453
Increase (decrease) in natural gas in storage - non-current	**(9)**	(4,072)
Cash used in investing activities	**(27,445)**	(23,950)
Financing Activities		
Decrease in bank indebtedness	**(12,425)**	(12,969)
Dividends paid	**(11,745)**	(7,819)
Increase in financing costs	**(198)**	(337)
Proceeds on issue of notes payable	**63,991**	16,559
Repayment of notes payable to parent	**(28,718)**	(10,144)
Debt retirement funds installments	**(3,231)**	(2,676)
Cash provided by (used in) financing activities	**7,674**	(17,386)
Increase in cash during the year	**39,545**	-
Cash position, beginning of year	**-**	-
Cash position, end of year	$ **39,545**	$ -

(See accompanying notes)

1. Status of the Corporation

TransGas Limited (the Corporation) was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. TransGas Limited is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation operates a natural gas transmission pipeline system within Saskatchewan providing open access transmission services as well as gathering, compression and natural gas processing to end use customers, marketers and producers. The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. The Corporation also provides natural gas storage services.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies. The impact of rate regulation on the application of GAAP is described in note 22. The following accounting policies are considered to be significant:

a. Natural gas in storage

Natural gas in storage is stated at the lower of cost and net realizable value and is accounted for on a weighted average cost basis.

b. Inventories of supplies

Inventories of supplies consist primarily of general stock used for construction and maintenance and are recorded at the lower of average cost and net realizable value. Replacement cost is used as management's best estimate of the net realizable value.

2. Summary of Significant Accounting Policies (continued)

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Computer hardware	20.0 to 33.3
Computer software	10.0 to 20.0
Vehicles, equipment and other	4.0 to 11.1

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The associated asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated useful life of the related asset.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

2. Summary of Significant Accounting Policies (continued)

e. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial assets is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Accounts payable, intercompany accounts payable and dividends payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

Derivative financial instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 14.

Embedded derivatives are recorded at fair value on the statement of financial position.

2. Summary of Significant Accounting Policies (continued)

f. Revenue recognition

Revenue is recognized when transportation, transportation-related services and storage are provided to customers and the ultimate collection is reasonably assured. An estimate of transportation, storage and related services rendered, but not billed is included in revenue.

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

g. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas in the open market, derivative financial instrument settlements, fair value adjustments on outstanding derivative financial and non-financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

h. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. The gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

i. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both multiemployer plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

2. Summary of Significant Accounting Policies (continued)

j. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for goodwill and intangible assets, Section 3064 – Goodwill and Intangible Assets, which is effective for fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At December 31, 2008, the impact of this section has not yet been determined but is not expected to have a material impact on the Corporation's financial statements for the year ended December 31, 2009.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in note 4.

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replace the existing CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in note 14.

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3031 – Inventories in accordance with the transition provisions. The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs to recognize subsequent increases to net realizable value. Also, guidance is provided related to reclassification of inventory items as property, plant and equipment. The standard requires retrospective application with no restatement of prior year results.

3. Changes in Accounting Policies (continued)

Upon the adoption of the new standard, the Corporation began using the weighted average cost method for valuing all natural gas inventories. The impact of applying this change in accounting policy effective January 1, 2008 was as follows:

	January 1, 2008 (thousands)
Natural gas in storage held for resale	$ (2,364)
Fair value of derivative instruments	(166)
Total assets	$ (2,530)
Accounts payable	$ (2,939)
Retained earnings	409
Total liabilities and equity	$ (2,530)

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service to businesses and industries.

The Corporation finances its capital requirements through internally generated funds and debt. The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $100 million on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice. In addition, the Corporation may borrow long-term debt from its parent, through the Subsidiary Debt Agreement, upon approval by its Board of Directors.

The Corporation's capital consists of long-term debt having a term to maturity greater than one year and shareholder's equity.

The Corporation monitors capital on the basis of the debt ratio. The current long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publically traded natural gas pipeline utilities. The Corporation adjusts its dividend payments to maintain the debt ratio at industry comparable levels. The Corporation's objectives, polices and processes for managing its capital as well as the debt ratio target are consistent with the prior year.

4. Capital Disclosure (continued)

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2008	2007
	(thousands)	
Long-term debt	**$ 374,479**	$ 339,028
Bank indebtedness	**-**	12,425
Cash	**(39,545)**	-
Debt retirement funds	**(28,526)**	(24,021)
Total net debt	**306,408**	327,432
Share capital	**4,001**	4,001
Retained earnings	**190,439**	185,155
Total capital	**$ 500,848**	$ 516,588
Debt ratio	**61.2%**	63.4%

The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2008.

5. Accounts Receivable

	2008	2007
	(thousands)	
Unbilled revenue	**$ 6,239**	$ 7,037
Trade accounts	**2,145**	3,828
Other receivables	**834**	955
	$ 9,218	$ 11,820

6. Natural Gas in Storage Held for Resale

During the year, $62,877 thousand of natural gas in storage held for resale was recognized as cost of gas sold (2007 - $88,614 thousand).

7. Inventories of Supplies

During the year, $1,039 thousand of inventories of supplies were expensed. (2007 - $877 thousand).

8. Property, Plant and Equipment

	2008			2007		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 665,681	$ 229,420	$ 436,261	$ 643,964	$ 212,388	$ 431,576
Gathering, treatment and compression	159,951	73,561	86,390	155,824	68,204	87,620
Vehicles, equipment and other	72,703	51,373	21,330	74,525	50,749	23,776
Construction in progress	48,671	-	48,671	16,360	-	16,360
	$ 947,006	$ 354,354	592,652	$ 890,673	$ 331,341	559,332
Less:						
Unamortized customer capital contributions			99,848			67,599
			$ 492,804			$ 491,733

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2008	2007
	(thousands)	
Balance, beginning of year	$ 67,599	$ 52,729
Contributions received	34,005	16,453
Amortization of contributions	(1,756)	(1,583)
Balance, end of year	$ 99,848	$ 67,599

b. Amortization

	2008	2007
	(thousands)	
Amortization of property, plant and equipment	$ 28,121	$ 27,118
Amortization of customer capital contributions	(1,756)	(1,583)
	$ 26,365	$ 25,535

8. Property, Plant and Equipment (continued)

The estimated service lives are based on formal studies with annual reviews for reasonableness. During 2008, a depreciation review was conducted by an independent third party. As a result of this review, the amortization rates of certain assets changed. The impact of this change was applied on a prospective basis commencing July 1, 2008. The estimated impact was a $60 thousand increase to the amortization expense for the year ended December 31, 2008.

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.2 per cent during 2008 (2007 - 3.2 per cent).

Included in transmission assets is an amount of $10,649 thousand (2007 - $3,086 thousand) received from SaskEnergy for customer capital contributions in aid of construction of certain transmission facilities. Amortization of customer capital contributions related to this amount in 2008 was $108 thousand (2007 - $104 thousand).

9. Debt Retirement Funds

Under conditions attached to certain advances from SaskEnergy, the Corporation is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. These debt retirement funds are administered by Saskatchewan's Ministry of Finance. The investments held in these debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 5.8 per cent for 2008 (2007 - 3.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement funds in each of the next five years are as follows: (thousands)

2009	2010	2011	2012	2013
$ 3,481	$ 3,481	$ 2,681	$ 2,681	$ 2,681

10. Accounts Payable

	2008	2007
	(thousands)	
Supplier payables	$ **14,838**	$ 10,484
Other payables	**7,240**	7,649
	$ **22,078**	$ 18,133

11. Long -Term Debt

Years to Maturity	2008 Principal Outstanding (thousands)	2008 Average Fixed Interest Rate (per cent)	2007 Principal Outstanding (thousands)	2007 Average Fixed Interest Rate (per cent)
Notes payable to parent				
1 - 5	**$ 102,422**	**7.0**	$ 131,140	7.4
6 - 10	**168,112**	**4.7**	104,121	4.7
16 - 30	**100,000**	**7.8**	100,000	7.8
	370,534		335,261	
Unamortized discount/issue costs	**(870)**		(1,048)	
Less due within one year	**(22,422)**		(28,718)	
	347,242		305,495	
Other debt	**4,815**	**13.5**	4,815	13.5
	$ 352,057		$ 310,310	

The effective interest rate for notes payable to parent was 6.1 percent (2007 - 6.7 percent).

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (thousands)

2009	2010	2011	2012	2013
$ 22,422	$ 80,000	$ -	$ -	$ -

12. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For purposes of estimating the fair value of these obligations, as at December 31, a settlement period ranging from 2009 to 2016 has been assumed.

12. Asset Retirement Obligations (continued)

As at December 31, the estimated future cash flows required to settle these obligations were $6,140 thousand (2007 - $6,140 thousand) were discounted to $5,111 thousand (2007 - $4,900 thousand) applying credit adjusted risk free rates ranging from 3.2 percent to 6.4 per cent.

	2008	2007
	(thousands)	
Asset retirement obligations, beginning of year	**$ 4,900**	$ 3,361
Liabilities incurred	**-**	1,381
Accretion expense	**211**	158
Asset retirement obligations, end of year	**$ 5,111**	$ 4,900

13. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Thirty (30) shares (2007 - thirty) are issued and outstanding.

14. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Other liabilities				
Notes payable	**$ 370,534**	**$ 420,268**	$ 335,260	$ 381,583
Held-for-trading				
Debt retirement funds	**28,526**	**28,526**	24,021	24,021

The fair values of the above instruments were based on the following:

i. Long term debt – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the debt retirement fund as determined by Saskatchewan's Ministry of Finance.

The fair value of other financial instruments, including cash, accounts receivable, intercompany accounts receivable, accounts payable, intercompany accounts payable and dividends payable approximate their carrying values due to the short-term nature of the instruments.

14. Financial Instruments and Risk Management (continued)

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31, 2008 has been used to estimate the contract price. At December 31, 2008, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

As at December 31, 2008 natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities.

	2009	2010	2011	2012	2013	Total
			(thousands)			
Physical natural gas contracts						
Fair value	$ 4,717	$ (767)	$ -	$ -	$ -	$ 3,950
Notional value	$14,488	$(7,846)	$ -	$ -	$ -	$ 6,642

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

c. Changes in fair value

The fair value of derivative instruments is presented on the statement of financial position as follows:

	2008	2007
	(thousands)	
Fair value of derivative instruments assets	$ 8,154	$ 1,781
Fair value of derivative instruments liabilities	(4,204)	(311)
	$ 3,950	$ 1,470

14. Financial Instruments and Risk Management (continued)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the increase (decrease) in net income of these unrealized gains and losses was as follows:

	2008	2007
	(thousands)	
Derivative instruments		
Gas marketing sales	$ 7,599	$ 416
Gas marketing cost of gas sold	(4,952)	681
	2,647	1,097
Financial instruments		
Gas marketing cost of gas sold	1,166	-
Interest expense	(307)	53
Increase in net income	$ 3,506	$ 1,150

d. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in the price of natural gas. The objectives, policies and processes for managing risk were consistent with the prior year.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount.

Based on the Corporation's December 31, 2008 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $648 thousand. Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas contracts, by $648 thousand.

14. Financial Instruments and Risk Management (continued)

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For the following financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2008:

	6 months or less	**7-12 months**	**1-2 years**	**3-5 years**	**More than 5 years**
			(thousands)		
Accounts payable	$ 22,078	$ -	$ -	$ -	$ -
Intercompany accounts payable	27,101	-	-	-	-
Dividends payable	3,684	-	-	-	-
Derivative instruments	6,747	-	7,846	-	-
Long-term debt	17,423	27,428	100,553	46,899	393,284
Debt retirement		-	-	-	-
funds installments	1,826	1,656	3,481	8,043	19,849
	$ 78,859	$ 29,084	$111,880	$ 54,942	$413,133

The long-term debt obligations include principal and interest payments.

iii. Credit risk

The Corporation is exposed to credit risk through cash, accounts receivable and derivative instrument assets.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At December 31, 2008 the maximum credit exposure to a non-related party was $885 thousand (2007 - $1,307 thousand) and to a related party was $7,788 thousand (2007 - $1,114 thousand). Excluding related parties, the Corporation had 129 customers (2007 - 124). There were no credit losses in 2008 (2007 – no credit losses).

14. Financial Instruments and Risk Management (continued)

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2008 (thousands)	2007
Cash	$ 39,545	$ -
Accounts receivable	9,218	11,820
Intercompany accounts receivable	5,707	3,740
Fair value of derivative instruments	8,154	1,781
Debt retirement funds	28,526	24,021
Maximum credit exposure	$ 91,150	$ 41,362

The following reflects an aging summary of the Corporation's accounts receivable:

	2008 (thousands)	2007
Current	$ 9,200	$ 11,655
30 - 59 days	11	83
60 - 89 days	3	1
Greater than 90 days	4	81
	$ 9,218	$ 11,820

The Corporation does not have a provision for credit losses (2007 - $nil).

e. Future payments under operating leases are as follows:

2009	2010	2011	2012	2013	Thereafter	Total
$ 215	$ 220	$ 111	$ -	$ -	$ -	$ 546

15. Revenue Collected For and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the revenue collected to certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities on the statement of income and retained earnings.

16. Other Revenue

	2008	2007
	(thousands)	
Natural gas and liquid sales	$ **6,639**	$ 5,473
Processing fees	**430**	459
Other	**218**	313
	$ **7,287**	$ 6,245

17. Interest Expense

	2008	2007
	(thousands)	
Interest expense on notes payable to parent	$ **21,415**	$ 22,426
Short-term interest expense	**573**	1,334
Interest on other debt	**650**	650
Amortization of discount/issue costs	**376**	333
Interest capitalized	**(569)**	(204)
Debt retirement funds earnings	**(1,581)**	(801)
Debt retirement funds fair value adjustments	**307**	(53)
	$ **21,171**	$ 23,685

Interest paid during the year on notes payable to parent was $21,128 thousand (2007 - $22,478 thousand).

18. Saskatchewan Taxes

	2008	2007
	(thousands)	
Corporate capital tax	$ **2,453**	$ 2,156
Property taxes and other	**560**	543
	$ **3,013**	$ 2,699

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

19. Net Change in Non-Cash Working Capital

	2008	2007
	(thousands)	
Accounts receivable	**$ 2,602**	$ (2,054)
Intercompany accounts receivable	**(1,967)**	(1,398)
Natural gas in storage held for resale	**3,839**	(3,155)
Inventories of supplies	**(112)**	(543)
Accounts payable	**3,945**	3,850
Intercompany accounts payable	**9,932**	(157)
	$ 18,239	$ (3,457)

20. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

a. Included in these financial statements are transactions with SaskEnergy and its subsidiaries as follows:

	2008	2007
	(thousands)	
Transportation and storage revenue	**$ 44,852**	$ 45,173
Gas marketing sales	**69,134**	22,670
Gas marketing cost of gas sold	**55,440**	(122)
Operating and maintenance expense	**16,326**	14,852
Interest expense	**21,007**	23,169
Fair value of derivative instruments assets	**8,154**	527
Natural gas in storage held for resale	**12,486**	4,686
Purchase of property, plant and equipment	**47**	20
Fair value of derivative instruments liabilities	**4,204**	291

Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

20. Related Party Transactions (continued)

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, during the year and amounts outstanding at year end, are as follows:

	2008	2007
	(thousands)	
Revenue	**13,301**	19,757
Operating expenses	**6,151**	9,415
Accounts receivable	**$ 1,167**	$ 309
Customer capital contributions	**34,346**	3,144
Accounts payable	**105**	72

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

21. Employees' Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $1,052 thousand (2007 - $918 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2008	2007
	(thousands)	
Accrued benefit liability	**$ 3,463**	$ 3,912
Benefits paid during the year	**212**	286
Net expense	**(180)**	568

21. Employees' Future Benefits (continued)

The Corporation measures its accrued benefit liability as at December 31 of each year with an annual actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2008	**2007**
Discount rate	**7.1 per cent**	5.0 per cent
Inflation rate	**2.5 per cent**	2.5 per cent
Average remaining employee service life	**7.8 years**	8.8 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

22. Rate Regulation

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation, except where specifically noted. The impact of rate regulation on the Corporation was as follows:

By virtue of legislation, the Corporation has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the Saskatchewan Rate Review Panel.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2f. The Corporation's transportation revenue was $89,433 thousand for 2008 (2007 - $96,233 thousand).

23. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

MANY ISLANDS PIPE LINES (CANADA) LIMITED

FINANCIAL STATEMENTS

December 31, 2008

Deloitte.

Deloitte & Touche LLP
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Bank of Montreal Building
Regina SK S4P 3Z8
Canada

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Auditors' Report

To the Shareholder of Many Islands Pipe Lines (Canada) Limited

We have audited the statement of financial position of Many Islands Pipe Lines (Canada) Limited as at December 31, 2008 and the statements of income and comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 17, 2009

MANY ISLANDS PIPE LINES (CANADA) LIMITED

Statement of Financial Position

As at December 31
(thousands of dollars)

	2008	2007
Assets		
Current assets		
Accounts receivable (Note 5)	**$ 127**	$ 133
Intercompany accounts receivable	**301**	138
	428	271
Property, plant and equipment (Note 6)	**15,075**	15,716
Debt retirement funds (Note 7)	**700**	590
	$ 16,203	$ 16,577
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	**$ 1,291**	$ 851
Accounts payable (Note 8)	**81**	76
Intercompany accounts payable	**186**	251
Current portion of notes payable to parent (Note 9)	**680**	871
	2,238	2,049
Notes payable to parent (Note 9)	**8,166**	8,850
	10,404	10,899
Shareholder's equity		
Share capital (Note 11)	-	-
Retained earnings	**5,799**	5,678
	5,799	5,678
	$ 16,203	$ 16,577

(See accompanying notes)

On behalf of the Board:

Director

Director

MANY ISLANDS PIPE LINES (CANADA) LIMITED

Statement of Income and Comprehensive Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2008	2007
Revenue		
Transportation	**$ 3,751**	$ 3,583
Expenses		
Operating and maintenance	**1,294**	1,149
Interest (Note 13)	**591**	664
Amortization (Note 6)	**646**	646
Saskatchewan taxes (Note 14)	**1,099**	1,039
	3,630	3,498
Net income and comprehensive income	**121**	85
Retained earnings, beginning of year	**5,678**	5,684
Change in accounting policy	**-**	(1)
Dividends	**-**	(90)
Retained earnings, end of year	**$ 5,799**	$ 5,678

(See accompanying notes)

MANY ISLANDS PIPE LINES (CANADA) LIMITED

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2008	2007
Operating Activities		
Net income	$ **121**	$ 85
Add (deduct) items not requiring an outlay of cash		
Amortization	**646**	646
Debt retirement funds	**(30)**	(21)
Other	**-**	(3)
	737	707
Net change in non-cash working capital related to operations (Note 15)	**(217)**	(33)
Cash provided by operating activities	**520**	674
Investing Activities		
Net additions to property, plant and equipment	**(5)**	(43)
Cash used in investing activities	**(5)**	(43)
Financing Activities		
Increase in bank indebtedness	**440**	576
Repayments of notes payable to parent	**(875)**	(307)
Dividends paid	**-**	(820)
Debt retirement funds installments	**(80)**	(80)
Cash used in financing activities	**(515)**	(631)
Increase in cash during the year	**-**	-
Cash position, beginning of year	**-**	-
Cash position, end of year	$ **-**	$ -

(See accompanying notes)

1. Status of the Corporation

Many Islands Pipe Lines (Canada) Limited (the Corporation) was incorporated on July 2, 1972 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation owns and/or operates fourteen natural gas transmission pipelines: eleven interconnects between Alberta and Saskatchewan, two interconnects between the United States and Saskatchewan, and one interconnect between Saskatchewan and Manitoba. The pipelines are located mainly in Saskatchewan and either cross or terminate at the Alberta, Manitoba and United States borders. The Corporation is regulated by the National Energy Board (NEB).

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies. The impact of rate regulation on the application of GAAP is described in Note 17. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission	2.6
Compression	3.5
Treatment	2.5
Other	2.5 - 15.0

2. Summary of Significant Accounting Policies (continued)

b. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method.

Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Accounts payable and intercompany accounts payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

Embedded derivatives are recorded at fair value on the statement of financial position.

c. Revenue recognition

Revenue is recognized when transportation services are provided to customers and the ultimate collection is reasonably assured. An estimate of transportation services rendered, but not billed, is included in revenue.

2. Summary of Significant Accounting Policies (continued)

d. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for goodwill and intangible assets, Section 3064 – Goodwill and Intangible Assets, which is effective for fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At December 31, 2008, the impact of this section has not yet been determined but is not expected to have a material impact on the Corporation's financial statements for the year ended December 31, 2009.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 4.

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replace the existing CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 10.

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service.

The Corporation finances its capital requirements through internally generated funds and debt. The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $2.5 million on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice. In addition, the Corporation may borrow long-term debt from its parent, through the Subsidiary Debt Agreement, upon approval by its Board of Directors.

The Corporation's capital consists of short-term debt, long-term debt having a term to maturity greater than one year and shareholder's equity.

The Corporation monitors capital on the basis of the debt ratio. The current long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publicly traded natural gas pipeline utilities. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year.

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2008	2007
	(thousands)	
Gross notes payable to parent	**$ 8,846**	$ 9,721
Bank indebtedness	**1,291**	851
Debt retirement funds	**(700)**	(590)
Total net debt	**9,437**	9,982
Share capital	**-**	-
Retained earnings	**5,799**	5,678
Total capital	**$ 15,236**	$ 15,660
Debt ratio	**61.9%**	63.7%

The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2008.

5. Accounts Receivable

	2008	2007
	(thousands)	
Unbilled revenue	**$ 116**	$ 122
Trade accounts	**2**	2
Other receivables	**9**	9
	$ 127	$ 133

6. Property, Plant and Equipment

	2008			2007		
			(thousands)			
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission	**$ 24,128**	**$ 9,267**	**$ 14,861**	$ 24,123	$ 8,647	$ 15,476
Compression	**712**	**511**	**201**	712	486	226
Treatment	**14**	**7**	**7**	14	6	8
Other	**465**	**460**	**5**	465	459	6
Construction in progress	**1**	**-**	**1**	-	-	-
	$ 25,320	**$ 10,245**	**$ 15,075**	$ 25,314	$ 9,598	$ 15,716

The composite rate of amortization was 2.6 per cent during 2008 (2007 - 2.6 per cent).

a. On April 1, 1988, the Corporation acquired a pipeline from Consolidated Pipe Lines Company (CPL). The original cost of the pipeline to CPL of $9,182 thousand and accumulated amortization of $6,879 thousand had been recorded as of April 1, 1988.

b. Pursuant to a NEB order dated April 11, 1991 the Corporation acquired a pipeline from its parent company, SaskEnergy. Pursuant to a NEB order also dated April 11, 1991, SaskEnergy acquired the pipeline from Saskatchewan Power Corporation (SPC). The original cost of the pipeline to SPC of $264 thousand and accumulated amortization of $151 thousand had been recorded as of April 11, 1991.

c. On December 9, 1993, the Corporation purchased a pipeline from an affiliated company, TransGas Limited, pursuant to a NEB order dated December 9, 1993. The original cost of the pipeline to TransGas Limited of $2,895 thousand and accumulated amortization of $62 thousand had been recorded as of December 9, 1993.

7. Debt Retirement Funds

The Corporation has received long-term debt from SaskEnergy. The terms and conditions of this debt require (on an annual basis) the investment of an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. The yield on these investments was 5.8 per cent for 2008 (2007 - 3.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement funds in each of the next five years are as follows: (thousands)

2009	2010	2011	2012	2013
$ 80	$ 80	$ 80	$ 80	$ 80

8. Accounts Payable

	2008	2007
	(thousands)	
Supplier payables	$ 75	$ 64
Other payables	6	12
	$ 81	$ 76

9. Notes Payable to Parent

	2008		2007	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
1 - 5	$ 680	9.8	$ 1,551	9.3
16 - 30	8,000	6.4	8,000	6.4
	8,680		9,551	
Unamortized discount/issue costs	166		170	
Less due within one year	(680)		(871)	
	$ 8,166		$ 8,850	

The effective interest rate on notes payable to parent was 6.5 per cent (2007 - 6.7 per cent)

9. Notes Payable to Parent (continued)

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (thousands)

2009	2010	2011	2012	2013
$ 680	$ -	$ -	$ -	$ -

10. Financial Instruments and Risk Management

a. Financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Other liabilities				
Notes payable to parent	**$ 8,846**	**$ 9,713**	$ 9,721	$ 11,655
Held-for-trading				
Debt retirement funds	**700**	**700**	590	590

The fair value of the above instruments was based on the following:

i. Notes payable to parent – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the debt retirement funds as determined by Saskatchewan's Ministry of Finance.

The fair value of other financial instruments, including accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable and intercompany accounts payable approximate their carrying values due to the short-term nature of the instruments.

10. Financial Instruments and Risk Management (continued)

b. Risk management

The objectives, policies and processes for managing risk were consistent with the prior year.

i. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2008:

	6 months or less	**7-12 months**	**1-2 years**	**3-5 years**	**More than 5 years**
			(thousands)		
Bank indebtedness	$ 1,291	$ -	$ -	$ -	$ -
Accounts payable	81	-	-	-	-
Intercompany accounts payable	186	-	-	-	-
Notes payable to parent	473	776	512	1,536	17,216
Debt retirement funds installments	-	80	80	240	1,440
	$ 2,031	$ 856	$ 592	$ 1,776	$ 18,656

The notes payable to parent obligations include principal and interest payments.

ii. Credit risk

The Corporation extends credit to its customers in the normal course of business. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and may require letters of credit and other forms of security. At December 31, 2008 the maximum credit exposure to a single customer was $60 thousand (2007 - $100 thousand). Excluding related parties (see Note 16), during 2008, the Corporation had 10 customers (2007 - 12) from which it earned approximately 39 per cent of its revenue (2007 - 37 per cent).

10. Financial Instruments and Risk Management (continued)

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2008 (thousands)	2007
Accounts receivable	**$ 127**	$ 133
Intercompany accounts receivable	**301**	138
Debt retirement funds	**700**	590
Maximum credit exposure	**$ 1,128**	$ 861

The following reflects an aging summary of the Corporation's accounts receivable:

	2008 (thousands)	2007
30 - 59 days	**$ 127**	$ 133

The Corporation does not have a provision for credit losses (2007 - $nil).

11. Share Capital

Authorized share capital consists of 50,000 Class A common shares without nominal or par value. One hundred and one shares (2007 - 101) are issued and outstanding. The shares were issued for nominal consideration of $101.

12. Other Comprehensive Income

CICA Handbook Section 1530 – Comprehensive Income establishes standards for the reporting and disclosure of comprehensive income. The Corporation does not have any items that required separate recognition outside of net income, and as a result, the adoption of this section did not have any impact on the Corporation's financial statements. Comprehensive income is equivalent to net income for the year ended December 31, 2008.

13. Interest Expense

	2008	2007
	(thousands)	
Interest expense on notes payable to parent	$ 592	$ 662
Short-term interest expense	32	28
Amortization of discount/issue costs	(3)	(3)
Interest capitalized	-	(2)
Debt retirement funds earnings	(37)	(19)
Debt retirement funds fair value adjustment	7	(2)
	$ 591	$ 664

Interest paid during 2008 on notes payable to parent was $657 thousand (2007 - $670 thousand).

14. Saskatchewan Taxes

	2008	2007
	(thousands)	
Property taxes	$ 1,085	$ 1,022
Corporate capital tax	14	17
	$ 1,099	$ 1,039

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

15. Net Change in Non-Cash Working Capital

	2008	2007
	(thousands)	
Accounts receivable	$ 6	$ 53
Intercompany accounts receivable	(163)	17
Accounts payable	5	(96)
Intercompany accounts payable	(65)	(7)
	$ (217)	$ (33)

16. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

a. Included in these financial statements are transactions with SaskEnergy and its subsidiaries as follows.

	2008	2007
	(thousands)	
Revenue	**$ 2,270**	$ 2,253
Operating expenses	**1,004**	835
Interest expense	**589**	665
Sale of property, plant and equipment	**-**	20

Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions during the year, and amounts outstanding at year end, are as follows:

	2008	2007
	(thousands)	
Operating expenses	**$ 23**	$ 22
Accounts receivable	**4**	-

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

17. Rate Regulation

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation, except where specifically noted. The impact of rate regulation on the Corporation was as follows:

The business activities of the Corporation are regulated by the NEB.

Revenue recognition policies for the Corporation's transportation revenue are as described in Note 2c. The Corporation's transportation revenue for 2008 was $3,751 thousand (2007 - $3,583 thousand).

BAYHURST GAS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

Deloitte.

Deloitte & Touche LLP
900 - 2103 11th Ave
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

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Auditors' Report

To the Shareholder of Bayhurst Gas Limited

We have audited the consolidated statement of financial position of Bayhurst Gas Limited as at December 31, 2008 and the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 17, 2009

BAYHURST GAS LIMITED

Consolidated Statement of Financial Position

As at December 31

(thousands of dollars)

	2008	2007
Assets		
Current assets		
Accounts receivable (Note 5)	$ 3,771	$ 2,763
Intercompany accounts receivable	3,318	3,226
Natural gas in storage held for resale (Note 6)	77,036	55,753
Fair value of derivative instruments	8,671	2,539
	92,796	64,281
Natural gas in storage held for resale (Note 6)	1,479	2,247
Property, plant and equipment (Note 7)	12,938	11,742
Debt retirement funds (Note 8)	104	-
Other assets	154	339
	$ 107,471	$ 78,609
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 42,466	$ 53,604
Accounts payable (Note 9)	2,089	3,659
Intercompany accounts payable	1,272	579
Dividends payable	8,084	12,429
Fair value of derivative instruments	350	1,327
	54,261	71,598
Asset retirement obligations (Note 10)	2,876	2,744
Notes payable to parent (Note 11)	29,906	-
	87,043	74,342
Shareholder's equity		
Retained earnings	19,463	3,413
Accumulated other comprehensive loss	(96)	(207)
	19,367	3,206
Share capital (Note 12)	1,061	1,061
	20,428	4,267
	$ 107,471	$ 78,609

(See accompanying notes)

On behalf of the Board:

Director

Director

BAYHURST GAS LIMITED
Consolidated Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2008	2007
Revenue		
Gas marketing sales	$ 65,626	$ 81,385
Royalties	5,953	4,558
Other (Note 14)	2,457	794
	74,036	86,737
Expenses		
Gas marketing cost of gas sold	23,599	49,045
Operating and maintenance	4,208	4,102
Amortization (Note 7)	1,720	1,244
Interest (Note 15)	1,579	1,285
Saskatchewan taxes (Note 16)	251	724
	31,357	56,400
Net income	42,679	30,337
Retained earnings, beginning of year	3,413	-
Change in accounting policy (Note 3)	11	-
Dividends	(26,640)	(26,924)
Retained earnings, end of year	$ 19,463	$ 3,413

(See accompanying notes)

BAYHURST GAS LIMITED
Consolidated Statement of Comprehensive Income

Years ended December 31
(thousands of dollars)

	2008	2007
Net income	**$ 42,679**	$ 30,337
Other comprehensive income (loss)		
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	**111**	(4,665)
Comprehensive income	**$ 42,790**	$ 25,672

BAYHURST GAS LIMITED
Consolidated Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2008	2007
Accumulated other comprehensive loss, beginning of year	**$ (207)**	$ -
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years	-	4,458
Other comprehensive income (loss)	**111**	(4,665)
Accumulated other comprehensive loss, end of year	**$ (96)**	$ (207)

(See accompanying notes)

BAYHURST GAS LIMITED
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2008	2007
Operating Activities		
Net income	$ **42,679**	$ 30,337
Add (deduct) items not requiring an outlay of cash		
Amortization	**2,037**	1,255
Change in fair value of derivative instruments	**(6,998)**	(1,290)
Debt retirement funds	**(4)**	-
	37,714	30,302
Net change in non-cash working capital related to operations (Note 17)	**(23,249)**	(29,353)
Decrease in natural gas in storage - non-current	**768**	741
Cash provided by operating activities	**15,233**	1,690
Investing Activities		
(Additions) reductions to property, plant and equipment	**(2,916)**	89
Acquisition	**-**	(5,067)
Additions to other assets	**-**	(370)
Cash used in investing activities	**(2,916)**	(5,348)
Financing Activities		
(Decrease) increase in bank indebtedness	**(11,138)**	24,875
Dividends paid	**(30,985)**	(21,217)
Increase in notes payble to parent	**29,906**	-
Debt retirement funds installments	**(100)**	-
Cash (used in) provided by financing activities	**(12,317)**	3,658
Increase in cash during the year	**-**	-
Cash position, beginning of year	**-**	-
Cash position, end of year	$ **-**	$ -

(See accompanying notes)

1. Status of the Corporation

Bayhurst Gas Limited (the Corporation) was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of its parent, SaskEnergy.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Bayhurst Energy Services Corporation. The accounts also include the Corporation's 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture.

b. Natural gas in storage held for resale

Natural gas in storage held for resale is stated at the lower of cost and net realizable value and is accounted for on a weighted average cost basis.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

2. Summary of Significant Accounting Policies (continued)

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	12.5 to 33.3
Gathering, treatment and compression	3.5 to 20.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The associated asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated useful life of the related asset.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

e. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

2. Summary of Significant Accounting Policies (continued)

Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Accounts payable, intercompany accounts payable and dividends payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

Derivative financial instruments not designated as a hedge are classified as held-for trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 13.

Embedded derivatives are recorded at fair value on the statement of financial position.

f. Revenue recognition

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements and the ultimate collection is reasonably assured.

Natural gas and liquid sales, included in other revenue, is recognized when natural gas and natural gas liquids are delivered to customers and ultimate collection is reasonably assured.

g. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, derivative financial instrument settlements, fair value adjustments on outstanding derivative instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

h. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. The gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

2. Summary of Significant Accounting Policies (continued)

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

i. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for goodwill and intangible assets, Section 3064 – Goodwill and Intangible Assets, which is effective for fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At December 31, 2008, the impact of this section has not yet been determined but is not expected to have a material impact on the Corporation's financial statements for the year ended December 31, 2009.

The CICA has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting of business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation's financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 4.

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replace the existing CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 13.

3. Changes in Accounting Policies

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3031 – Inventories in accordance with the transition provisions. The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs to recognize subsequent increases to net realizable value. Also, guidance is provided related to reclassification of inventory items as property, plant and equipment. The standard requires retrospective application with no restatement of prior year results.

Upon the adoption of the new standard, the Corporation began using the weighted average cost method for valuing all natural gas inventories. The impact of applying this change in accounting policy effective January 1, 2008 was as follows:

	January 1, 2008 (thousands)
Natural gas in storage held for resale	$ 11
Total assets	$ 11
Retained earnings	$ 11
Total liabilities and equity	$ 11

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service.

The Corporation finances its capital requirements through internally generated funds and debt. The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $20 million on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice. In addition, the Corporation may borrow long-term debt from its parent, through the Subsidiary Debt Agreement, upon approval by its Board of Directors.

The Corporation's capital consists of short-term debt, long-term debt having a term to maturity greater than one year and shareholder's equity. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year. The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2008.

5. Accounts Receivable

	2008	2007
	(thousands)	
Unbilled revenue	**$ 1,654**	$ 987
Trade accounts	**830**	842
Other receivables	**1,287**	934
	$ 3,771	$ 2,763

6. Natural Gas in Storage Held for Resale

During the year, $23,095 thousand of natural gas in storage held for resale (2007 - $48,975 thousand) was recognized as cost of gas sold.

7. Property, Plant and Equipment

	2008			2007		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Gathering, treatment and compression	**$ 11,647**	**$ 2,886**	**$ 8,761**	$ 11,601	$ 2,195	$ 9,406
Storage	**6,549**	**3,296**	**3,253**	3,882	2,612	1,270
Transmission	**2,617**	**1,876**	**741**	2,639	1,531	1,108
Construction in progress	**224**	**-**	**224**	-	-	-
	$ 21,037	**$ 8,058**	**12,979**	$ 18,122	$ 6,338	11,784
Less:						
Unamortized customer capital contributions			**41**			42
			$ 12,938			$ 11,742

7. Property, Plant and Equipment (continued)

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2008	2007
	(thousands)	
Balance, beginning of year	**$ 42**	$ 43
Amortization of contributions	**(1)**	(1)
Balance, end of year	**$ 41**	$ 42

b. Amortization

	2008	2007
	(thousands)	
Amortization of property, plant and equipment	**$ 1,721**	$ 1,245
Amortization of customer capital contributions	**(1)**	(1)
	$ 1,720	$ 1,244

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 8.8 per cent during 2008 (2007 - 8.2 per cent).

8. Debt Retirement Funds

The Corporation has received long-term debt from SaskEnergy. The terms and conditions of this debt require (on an annual basis) the investment of an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. The yield on these investments was 5.8 per cent for 2008 (2007 - 3.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (thousands)

2009	2010	2011	2012	2013
$ 300	$ 300	$ 300	$ 300	$ 300

9. Accounts Payable

	2008	2007
	(thousands)	
Supplier payables	$ 769	$ 613
Other payables	1,320	3,046
	$ 2,089	$ 3,659

10. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of each obligation is conditional upon the Corporation's intended use for these facilities. For purposes of estimating the fair value of these obligations at December 31, a settlement period ranging from 2012 to 2022 has been assumed.

As at December 31, the estimated future cash flows required to settle these obligations were $3,565 thousand (2007 - $3,565 thousand), which were discounted to $2,876 thousand (2007 - $2,744 thousand) applying credit adjusted risk free rates ranging from 4.3 to 4.8 per cent.

	2008	2007
	(thousands)	
Asset retirement obligations, beginning of year	$ 2,744	$ 2,619
Liabilities incurred	-	145
Accretion expense	132	127
Revisions in estimated cash flows	-	(147)
Asset retirement obligations, end of year	$ 2,876	$ 2,744

11. Notes Payable to Parent

	2008		2007	
Years to Maturity	**Principal Outstanding (thousands)**	**Average Fixed Interest Rate (per cent)**	**Principal Outstanding (thousands)**	**Average Fixed Interest Rate (per cent)**
Notes payable to parent				
6 - 10	$ 30,000	4.5	$ -	-
Unamortized discount/issue costs	(94)		-	
	$ 29,906		$ -	

The effective interest rate on notes payable to parent was 4.5 per cent.

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

There is no principal repayment due in the next five years.

12. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. One hundred twenty (120) shares (2007 - 120 shares) are issued and outstanding.

13. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2008		2007	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(thousands)			
Other liabilities				
Notes payable to parent	**$ 29,906**	**$ 31,219**	$ -	$ -
Held-for-trading				
Debt retirement funds	**104**	**104**	-	-

The fair value of the above instruments was based on the following:

i. Notes payable to parent – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the debt retirement fund as determined by Saskatchewan's Ministry of Finance.

The fair value of other financial instruments, including accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable, intercompany accounts payable and dividends payable approximate their carrying values due to the short-term nature of the instruments.

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31, 2008 has been used to estimate the contract price. At December 31, 2008, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

13. Financial Instruments and Risk Management (continued)

As at December 31, 2008, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

	2009	2010	2011	2012	2013	Total
			(thousands)			
Physical natural gas contracts						
Fair value	$ 3,857	$ 616	$ 207	$ 276	$ -	$ 4,956
Notional value	26,950	8,943	7,645	6,790	-	50,328
Natural gas price swaps						
Fair value	3,451	146	(200)	(32)	-	3,365
Notional value	3,451	146	(200)	(32)	-	3,365
Total						
Fair value	$ 7,308	$ 762	$ 7	$ 244	$ -	$ 8,321
Notional value	$30,401	$9,089	$7,445	$6,758	$ -	$53,693

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

c. Changes in fair value

The fair value of derivative instruments is presented on the consolidated statement of financial position as follows:

	2008	2007
	(thousands)	
Fair value of derivative instruments assets	$ 8,671	$ 2,539
Fair value of derivative instruments liabilities	(350)	(1,327)
	$ 8,321	$ 1,212

13. Financial Instruments and Risk Management (continued)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the increase in net income of these unrealized gains was as follows:

	2008 (thousands)	2007
Derivative instruments		
Gas marketing sales	$ 6,997	$ 1,291
Financial instruments		
Interest revenue	(2)	-
Increase in net income	$ 6,995	$ 1,291

d. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in the price of natural gas. The objectives, policies and processes for managing risk were consistent with the prior year.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount.

Based on the Corporation's December 31, 2008 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $11,592 thousand. Conversely, a decrease of $1.00 per Gigajoule would have increased net income, through an increase in the fair value of natural gas contracts, by $11,592 thousand.

13. Financial Instruments and Risk Management (continued)

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For the following financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2008:

	6 months or less	7-12 months	1-2 years	3-5 years	More than 5 years
			(thousands)		
Bank indebtedness	$ -	$ 42,466	$ -	$ -	$ -
Accounts payable	2,089	-	-	-	-
Intercompany accounts payable	1,272	-	-	-	-
Dividends payable	8,084	-	-	-	-
Notes payable to parent	673	674	1,347	4,041	34,506
Debt retirement funds installments	-	300	300	900	1,000
	$ 12,118	$ 43,440	$ 1,647	$ 4,941	$ 35,506

The notes payable to parent obligations include principal and interest payments.

iii. Credit risk

The Corporation is exposed to credit risk through accounts receivable and derivative instrument assets.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At December 31, 2008 the maximum credit exposure to a non-related counterparty was $1,720 thousand (2007 - $842 thousand) and to a related party was $8,495 thousand (2007 - $2,331 thousand).

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with creditworthy counterparties in accordance with established credit approval policies.

13. Financial Instruments and Risk Management (continued)

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2008	2007
	(thousands)	
Accounts receivable	$ **3,771**	$ 2,763
Intercompany accounts receivable	**3,318**	3,226
Fair value of derivative instruments	**8,671**	2,539
Debt reitrement funds	**104**	-
Maxiumum credit exposure	$ **15,864**	$ 8,528

The following reflects an aging summary of the Corporation's accounts receivable:

	2008	2007
	(thousands)	
Current	$ **2,764**	$ 1,858
30 - 59 days	**41**	905
Greater than 90 days	**966**	-
	$ **3,771**	$ 2,763

The Corporation does not have a provision for credit losses (2007 - $nil).

14. Other Revenue

	2008	2007
	(thousands)	
Natural gas and liquid sales	$ **2,063**	$ 349
Management fees	**263**	372
Processing fees	**62**	7
Transportation	**69**	66
	$ **2,457**	$ 794

15. Interest Expense

	2008	2007
	(thousands)	
Interest on bank indebtedness	**$ 1,202**	$ 1,285
Interest on notes payable to parent	**381**	-
Debt retirement funds earnings	**(2)**	-
Debt retirement funds fair value adjustment	**(2)**	-
	$ 1,579	$ 1,285

Interest paid during 2008 on notes payable to parent was $116 thousand (2007 - $nil).

16. Saskatchewan Taxes

	2008	2007
	(thousands)	
Corporate capital tax	**$ 251**	$ 724

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

17. Net Change in Non-Cash Working Capital

	2008	2007
	(thousands)	
Accounts receivable	**$ (1,008)**	$ (1,749)
Intercompany accounts receivable	**(92)**	(568)
Natural gas in storage held for resale	**(21,272)**	(29,900)
Accounts payable	**(1,570)**	2,495
Intercompany accounts payable	**693**	369
	$ (23,249)	$ (29,353)

18. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

a. Included in these financial statements are transactions with SaskEnergy and its subsidiaries as follows.

	2008	**2007**
	(thousands)	
Revenue	**$ 64,488**	$ 34,846
Cost of gas sold	**20,369**	9,132
Operating expenses	**2,046**	2,985
Interest expense	**1,576**	1,285
Natural gas in storage held for resale	**37,259**	1,043
Fair value of derivative instruments assets	**4,981**	74
Fair value of derivative instruments liabilities	**26**	51

Amounts outstanding at year end have been shown as intercompany accounts receivable and payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions during the year, and amounts outstanding at year end, are as follows:

	2008	**2007**
	(thousands)	
Operating expenses	**$ 1,484**	$ 1,458
Saskatchewan taxes	**251**	724
Accounts receivable	**46**	-
Accounts payable	**159**	455

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

19. Joint Venture

The following amounts have been included in these consolidated financial statements to account for the Corporation's 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture:

a. Consolidated statement of financial position

	2008	2007
	(thousands)	
Current assets	$ **113**	$ 369
Property, plant and equipment	**5,676**	5,715
Current liabilities	**(317)**	(172)
Net investment in joint venture	$ **5,472**	$ 5,912

b. Consolidated statement of income

	2008	2007
	(thousands)	
Revenue	$ **2,124**	$ 356
Expenses	**(1,538)**	(226)
Income from joint venture	$ **586**	$ 130

c. Consolidated statement of cash flows

	2008	2007
	(thousands)	
Cash provided by operating activities	$ **1,278**	$ -
Cash used in investing activities	**(252)**	-
Increase in cash	$ **1,026**	$ -

20. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SWAN VALLEY GAS CORPORATION

FINANCIAL STATEMENTS

December 31, 2008

Deloitte.

Deloitte & Touche LLP
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Bank of Montreal Building
Regina SK S4P 3Z8
Canada

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Auditors' Report

To the Shareholder of Swan Valley Gas Corporation

We have audited the statement of financial position of Swan Valley Gas Corporation as at December 31, 2008 and the statements of income and deficit, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 17, 2009

SWAN VALLEY GAS CORPORATION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2008	2007
Assets		
Current assets		
Cash	$ 411	$ 353
Accounts receivable (Note 5)	268	224
Intercompany accounts receivable	86	1
	765	578
Property, plant and equipment (Note 6)	1,606	1,657
Debt retirement funds (Note 7)	23	11
	$ 2,394	$ 2,246
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable (Note 8)	$ 65	$ 61
Intercompany accounts payable	157	199
Fair value of derivative instruments (Note 9)	38	15
	260	275
Note payable to parent (Note 10)	1,100	1,100
	1,360	1,375
Shareholder's equity		
Share capital (Note 11)	1,317	1,317
Deficit	(283)	(446)
	1,034	871
	$ 2,394	$ 2,246

(See accompanying notes)

On behalf of the Board:

Director

Director

SWAN VALLEY GAS CORPORATION
Statement of Income and Deficit

Years ended December 31
(thousands of dollars)

	2008	2007
Revenue		
Commodity sales	$ 927	$ 844
Delivery	828	864
	1,755	1,708
Expenses		
Commodity cost of gas sold	869	775
Operating and maintenance	253	305
Transportation	367	385
Amortization (Note 6)	69	69
Interest (Note 12)	34	29
	1,592	1,563
Net income	163	145
Deficit, beginning of year	(446)	(591)
Deficit, end of year	$ (283)	$ (446)

(See accompanying notes)

SWAN VALLEY GAS CORPORATION
Statement of Comprehensive Income

Years ended December 31
(thousands of dollars)

		2008		2007
Net income	$	163	$	145
Other comprehensive income				
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year		-		20
Comprehensive income	$	163	$	165

SWAN VALLEY GAS CORPORATION
Statement of Accumulated Other Comprehensive Income

Years ended December 31
(thousands of dollars)

		2008		2007
Accumulated other comprehensive income, beginning of year	$	-	$	-
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years		-		(20)
Other comprehensive income		-		20
Accumulated other comprehensive income, end of year	$	-	$	-

(See accompanying notes)

SWAN VALLEY GAS CORPORATION

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2008	2007
Operating Activities		
Net income	$ 163	$ 145
Add items not requiring an outlay of cash		
Amortization	69	69
Change in fair value of derivative instruments	23	15
Other	(1)	-
	254	229
Net change in non-cash working capital related to operations (Note 14)	(167)	169
Cash provided by operating activities	87	398
Investing Activities		
Net additions to property, plant and equipment	(18)	(20)
Capital contributions received (Note 6)	-	6
Cash used in investing activities	(18)	(14)
Financing Activities		
Decrease in bank indebtedness	-	(20)
Debt retirement funds installments	(11)	(11)
Cash used in financing activities	(11)	(31)
Increase in cash during the year	58	353
Cash position, beginning of year	353	-
Cash position, end of year	$ 411	$ 353

(See accompanying notes)

Swan Valley Gas Corporation
Notes to the Financial Statements
December 31, 2008

1. Status of the Corporation

Swan Valley Gas Corporation (the Corporation) was created on November 30, 1999 under *The Corporations Act of Manitoba*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation operates natural gas transmission and distribution facilities in the Swan Valley region of Manitoba. The Corporation contracts with SaskEnergy and its affiliated corporations for its natural gas supply, transportation and storage requirements. The Corporation takes delivery of natural gas at the inlet to its facilities approximately one kilometre east of the Manitoba-Saskatchewan border.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies. The impact of rate regulation on the application of GAAP is described in note 16. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

2. Summary of Significant Accounting Policies (continued)

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Distribution	
- Stations	3.0
- Mains	2.5
- Services	3.5
- Meters	3.5
Vehicles, equipment and other	5.0

Customer capital contributions relate to construction of new natural gas distribution facilities. These contributions are amortized on a straight-line basis over the estimated service life of the related asset.

b. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporary impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Accounts payable and intercompany accounts payable, are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

2. Summary of Significant Accounting Policies (continued)

Derivative instruments not designated as a hedge are classified as held-for trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in Note 9.

Embedded derivatives are recorded at fair value on the statement of financial position.

c. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed as at December 31, is included in revenue.

d. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas, derivative financial instrument settlements, fair value adjustments on outstanding derivative instruments, transportation, and an allocation of costs related to supply acquisition.

e. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for goodwill and intangible assets, Section 3064 – Goodwill and Intangible Assets, which is effective for fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At December 31, 2008, the impact of this section has not yet been determined but is not expected to have a material impact on the Corporation's financial statements for the year ended December 31, 2009.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 4.

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replace the existing CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 9.

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service to Manitoba residents, businesses and industries.

The Corporation finances its capital requirements through internally generated funds and debt. The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $1 million on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice. In addition, the Corporation may borrow long-term debt from its parent, through the Subsidiary Debt Agreement, upon approval by its Board of Directors.

The Corporation's capital consists of long-term debt having a term to maturity greater than one year and shareholder's equity.

4. Capital Disclosure (continued)

The Corporation monitors capital on the basis of the debt ratio. The current long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publicly traded natural gas distribution utilities. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year.

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2008	2007
	(thousands)	
Gross notes payable to parent	**$ 1,100**	$ 1,100
Debt retirement funds	**(23)**	(11)
Cash	**(411)**	(353)
Total net debt	**666**	736
Share capital	**1,317**	1,317
Deficit	**(283)**	(446)
Total capital	**$ 1,700**	$ 1,607
Debt ratio	**39.2%**	45.8%

The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2008.

5. Accounts Receivable

	2008	2007
	(thousands)	
Unbilled revenue	**$ 168**	$ 180
Trade accounts	**99**	7
Other receivables	**1**	37
	$ 268	$ 224

6. Property, Plant and Equipment

	2008			2007		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Main lines	$ 6,388	$ 1,239	$ 5,149	$6,378	$ 1,080	$5,298
Service lines and meters	1,288	321	967	1,280	277	1,003
Stations	687	159	528	687	138	549
General plant	32	12	20	32	11	21
	$ 8,395	$ 1,731	6,664	$8,377	$ 1,506	6,871
Less:						
Unamortized capital contributions			5,058			5,214
			$ 1,606			$1,657

a. Capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2008	2007
	(thousands)	
Balance, beginning of year	$ 5,214	$ 5,364
Contributions received	-	6
Amortization of contributions	(156)	(156)
Balance, end of year	$ 5,058	$ 5,214

6. Property, Plant and Equipment (continued)

b. Amortization

	2008	2007
	(thousands)	
Amortization of property, plant and equipment	**$ 225**	$ 225
Amortization of capital contributions	**(156)**	(156)
	$ 69	$ 69

The composite rate of amortization on property, plant and equipment (excluding the effect of capital contributions amortization) was 2.7 per cent during 2008 (2007 - 2.7 per cent).

7. Debt Retirement Funds

The Corporation has received long-term debt from SaskEnergy. The terms and conditions of this debt require (on an annual basis) the investment of an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. The yield on these investments was 5.8 per cent for 2008 (2007 - 3.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (thousands)

2009	2010	2011	2012	2013
$ 11	$ 11	$ 11	$ 11	$ 11

8. Accounts Payable

	2008	2007
	(thousands)	
Supplier payables	**$ 20**	$ 11
Other payables	**45**	50
	$ 65	$ 61

9. Financial Instruments and Risk Management

a. Financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2008		2007	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(thousands)			
Other liabilities				
Notes payable to parent	**$ 1,100**	**$ 1,137**	$ 1,100	$ 1,092
Held-for-trading				
Debt retirement funds	**23**	**23**	11	11

The fair values of the above instruments were based on the following:

i. Note payable to parent – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the debt retirement fund as determined by Saskatchewan's Ministry of Finance.

The fair value of other financial instruments, including cash, accounts receivable, intercompany accounts receivable, accounts payable, and intercompany accounts payable approximate their carrying values due to the short-term nature of the instruments.

9. Financial Instruments and Risk Management (continued)

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31, 2008 has been used to estimate the contract price. At December 31, 2008, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

As at December 31, 2008, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

	2009
	(thousands)
Physical natural gas contracts	
Fair value	$ 38
Notional value	$ (339)

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

c. Changes in fair value

The fair value of derivative instruments is presented on the statement of financial position as follows:

	2008	**2007**
	(thousands)	
Fair value of derivative instruments liabilities	$ 38	$ 15

The change in fair value of financial assets and liabilities is recorded in net income within the relevant revenue or expense category. For the years ended December 31 the increase (decrease) in net income of these unrealized gains and losses was as follows:

	2008	**2007**
	(thousands)	
Commodity cost of gas sold	$ (23)	$ (15)
(Decrease) in net income	$ (23)	$ (15)

9. Financial Instruments and Risk Management (continued)

d. Risk management

The objectives, policies and processes for managing risk were consistent with the prior year.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount.

Based on the Corporation's December 31, 2008 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $18 thousand. Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas contracts, by $18 thousand.

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2008:

	6 months or less	7-12 months	1-2 years	3-5 years	More than 5 years
			(thousands)		
Accounts payable	$ 65	$ -	$ -	$ -	$ -
Intercompany accounts payable	157	-	-	-	-
Derivative instruments	270	69	-	-	-
Note payable to parent	24	24	47	144	1,244
Debt retirement funds installments	-	11	11	33	33
	$ 516	$ 104	$ 58	$ 177	$ 1,277

The notes payable to parent obligations include principal and interest payments.

9. Financial Instruments and Risk Management (continued)

iii. Credit risk

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and may require letters of credit and other forms of security. At December 31, 2008 the maximum credit exposure to a single customer was $118 thousand (2007 - $59 thousand). During 2008, the Corporation had one non-related customer from which it earned approximately 43 per cent of its revenue (2007 - 44 per cent).

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with large, creditworthy counterparties in accordance with established credit approval policies.

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2008	**2007**
	(thousands)	
Cash	**$ 411**	$ 353
Accounts receivable	**268**	224
Intercompany accounts receivable	**86**	1
Debt retirement funds	**23**	11
Maximum credit exposure	**$ 788**	$ 589

The following reflects an aging summary of the Corporation's accounts receivable:

	2008	**2007**
	(thousands)	
Current	**$ 264**	$ 224
30 - 59 days	**4**	-
	$ 268	**$ 224**

The Corporation does not have a provision for credit losses (2007 - $nil).

10. Note Payable to Parent

	2008		2007	
	Principal Outstanding (thousands)	Interest Rate (per cent)	Principal Outstanding (thousands)	Interest Rate (per cent)
Note payable to parent	**$ 1,100**	**4.4**	$ 1,100	4.4

The effective interest rate on note payable to parent was 4.4 per cent (2007 - 4.4 per cent).

a. Maturity date

The note payable to parent matures in 2016.

b. Principal repayments

There are no principal repayments due in any of the next five years.

11. Share Capital

Authorized share capital consists of an unlimited number of common shares without nominal or par value. Issued share capital is as follows:

	Shares	2008	2007
		(thousands)	
Share capital	**131,650**	**$ 1,317**	$ 1,317

12. Interest Expense

	2008	2007
	(thousands)	
Interest expense on note payable to parent	**$ 48**	$ 48
Interest earned on bank balance	**(9)**	(10)
Debt retirement funds earnings	**(1)**	-
Interest allocation to commodity cost of gas sold	**(4)**	(9)
	$ 34	$ 29

Interest paid during 2008 on note payable to parent was $48 thousand (2007 - $48 thousand).

13. Manitoba Taxes

	2008	2007
	(thousands)	
Property taxes	$ 104	$ 98

The above amounts do not include Manitoba Retail Sales Tax payments. The Corporation is not subject to Corporate Capital Tax.

14. Net Change in Non-Cash Working Capital

	2008	2007
	(thousands)	
Accounts receivable	$ (44)	$ (27)
Intercompany accounts receivable	(85)	112
Accounts payable	4	(12)
Intercompany accounts payable	(42)	96
	$ (167)	$ 169

15. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

Included in these financial statements are transactions with SaskEnergy and its subsidiaries as follows:

	2008	2007
	(thousands)	
Commodity cost of gas	$ 482	$ 444
Transportation expense	453	504
Operating and maintenance	92	87
Interest expense	38	37
Fair value of derivative instruments liabilities	38	15

Amounts outstanding at year end with have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

16. Rate Regulation

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation, except where specifically noted. The impact of rate regulation on the Corporation was as follows:

The business activities of the Corporation are regulated by the Manitoba Public Utilities Board (MPUB).

The Corporation follows GAAP for its regulated operations which may differ from those otherwise expected in non-regulated businesses. These differences occur when the regulatory agency exercises its statutory authority and renders specific accounting and other rate-making decisions. In addition to defining certain accounting requirements, the regulatory agency has jurisdiction over a number of other principal matters, which include but are not limited to, the rates to be charged for the sale and distribution of natural gas and approval and recovery of costs for major construction and operations.

For rate-setting purposes, the Corporation's approved gas consumption charge for natural gas is based on the principle that over the long term it neither profits from nor incurs a loss on sale.

The Purchase Gas Variance Account (PGVA) accumulates differences between commodity sales revenue and the commodity cost of gas sold. Subject to approval of MPUB, balances accumulated in the PGVA are either recovered from or refunded to customers through future rates.

The PGVA has an accumulated receivable balance, for regulatory purposes, of $157 thousand as at December 31, 2008 (2007 - $238 thousand) consisting primarily of prior years' unrecovered transportation costs. There was a $81 thousand recovery during 2008 (2007 - $57 thousand). The PGVA has not been recorded as a regulatory receivable in these financial statements due to uncertainty as to whether or not this amount will actually be recovered.

17. Subsequent Event

On January 7, 2009, the Corporation's major customer gave notice of a temporary discontinuance of the use of natural gas in its operations. As at February 17, 2009 the parties were in the process of renegotiating a commercial services agreement for 2009. The estimated impact for 2009 will be a decrease in delivery revenue of approximately $280 thousand with a corresponding decrease in net income.

For financial reporting purposes, in accordance with CICA Handbook Section 3063 – Impairment of Long Lived Assets, the Corporation has assessed its property, plant and equipment for recoverability. Based upon this assessment, the Corporation has concluded that no impairment will be recognized as the estimated undiscounted cash flows from their use exceeded the carrying value of these assets.

SASKATCHEWAN FIRST CALL CORPORATION

FINANCIAL STATEMENTS

December 31, 2008

Deloitte.

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Canada

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Auditors' Report

To the Shareholder of Saskatchewan First Call Corporation

We have audited the statement of financial position of Saskatchewan First Call Corporation as at December 31, 2008 and the statements of income and comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 17, 2009

SASKATCHEWAN FIRST CALL CORPORATION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2008	2007
Assets		
Current assets		
Cash	$ 196	$ 115
Accounts receivable (Note 5)	21	14
Intercompany accounts receivable	26	7
Prepaid expenses	13	13
	256	149
Property, plant and equipment (Note 6)	2	5
	$ 258	$ 154
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	$ 12	$ 11
Intercompany accounts payable	19	16
	31	27
Shareholder's equity		
Share capital (Note 7)	1	1
Retained earnings	226	126
	227	127
	$ 258	$ 154

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Income and Comprehensive Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2008	2007
Revenue		
Notification service revenue	$ 554	$ 491
Interest income (Note 10)	3	-
	557	491
Expenses		
Operating and maintenance	454	383
Amortization (Note 6)	3	23
	457	406
Net income and comprehensive income	100	85
Retained earnings, beginning of year	126	41
Retained earnings, end of year	$ 226	$ 126

(See accompanying notes)

SASKATCHEWAN FIRST CALL CORPORATION
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2008	2007
Operating Activities		
Net income	$ 100	$ 85
Add item not requiring an outlay of cash		
Amortization	3	23
	103	108
Net change in non-cash working capital related to operations (Note 11)	(22)	36
Cash provided by operating activities	81	144
Investing Activities		
Reduction in property, plant and equipment	-	7
Cash provided by investing activities	-	7
Financing Activities		
Decrease in bank indebtedness	-	(36)
Cash used in financing activities	-	(36)
Increase in cash during the year	81	115
Cash position, beginning of year	115	-
Cash position, end of year	$ 196	$ 115

(See accompanying notes)

1. Status of the Corporation

Saskatchewan First Call Corporation (the Corporation) was created on April 5, 2002 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation has established a database for the location of certain underground utility facilities and oil, gas and other pipeline systems located in Saskatchewan. Primarily for safety reasons, the Corporation provides a service whereby landowners and other stakeholders may contact the Corporation to determine the location of underground facilities.

The Corporation recovers its costs of operation from subscriber companies participating in this notification service.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rate is as follows (in per cent):

Computer hardware and software	20.0

2. Summary of Significant Accounting Policies (continued)

b. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments.

Accounts payable and intercompany accounts payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments.

Embedded derivatives are recorded at fair value on the statement of financial position.

c. Revenue recognition

Revenue is recognized when a subscriber company receives notification of an intention to excavate near its facilities and the ultimate collection is reasonably assured. An estimate of notification services rendered, but not billed is included in revenue.

2. Summary of Significant Accounting Policies (continued)

d. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for goodwill and intangible assets, Section 3064 – Goodwill and Intangible Assets, which is effective for fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At December 31, 2008, the impact of this section has not yet been determined but is not expected to have a material impact on the Corporation's financial statements for the year ended December 31, 2009.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 4.

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replace the existing CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 9.

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service to Saskatchewan residents, businesses and industries.

The Corporation funds its capital requirements through internally generated funds and debt. The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $1 million on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice. In addition, the Corporation may borrow long-term debt from its parent, through the Subsidiary Debt Agreement, upon approval by its Board of Directors.

The Corporation's capital consists of shareholder's equity and currently has no need for additional capital. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year. The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2008.

5. Accounts Receivable

	2008	2007
	(thousands)	
Unbilled revenue	$ 16	$ 9
Trade accounts	5	5
	$ 21	$ 14

6. Property, Plant and Equipment

	2008			2007		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware and software	$ 114	$ 112	$ 2	$ 122	$ 117	$ 5

7. Share Capital

Authorized share capital consists of an unlimited number of Class A voting common shares without nominal or par value. One hundred (100) shares are issued and outstanding.

8. Comprehensive Income

CICA Handbook Section 1530 – Comprehensive Income establishes standards for the reporting and disclosure of comprehensive income. The Corporation does not have any items that require separate recognition outside of net income, and, as a result, the adoption of this section did not have any impact on the Corporation's financial statements. Comprehensive income is equivalent to net income for the year ended December 31, 2008.

9. Risk Management

The objectives, policies and processes for managing risk were consistent with the prior year.

a. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2008:

	6 months or less	7-12 months	1-2 years	3-5 years	More than 5 years
			(thousands)		
Accounts payable	$ 12	$ -	$ -	$ -	$ -

b. Credit risk

The Corporation extends credit to its customers in the normal course of business. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and may require letters of credit and other forms of security. At December 31, 2008 the maximum credit exposure to a single customer was $4 thousand (2007 - $3 thousand).

9. Risk Management (continued)

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2008	2007
	(thousands)	
Cash	$ 196	$ 115
Accounts receivable	21	14
Intercompany accounts receivable	26	7
Maximum credit exposure	$ 243	$ 136

The following reflects an aging summary of the Corporation's accounts receivable:

	2008	2007
	(thousands)	
Current	$ 19	$ 12
30 - 59 days	2	1
60 - 89 days	-	1
	$ 21	$ 14

The Corporation does not have a provision for credit losses (2007 - $nil).

10. Interest Income

	2008	2007
	(thousands)	
Interest income earned on bank balance	$ 4	$ 1
Interest expense on bank balance	(1)	(1)
	$ 3	$ -

11. Net Change in Non-Cash Working Capital

	2008	2007
	(thousands)	
Accounts receivable	$ (7)	$ -
Intercompany accounts receivable	(19)	21
Accounts payable	1	(1)
Intercompany accounts payable	3	16
	$ (22)	$ 36

12. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

a. Included in these financial statements are transactions with SaskEnergy and its subsidiaries as follows:

	2008	2007
	(thousands)	
Revenue	$ 358	$ 332
Interest income	4	1
Operating expenses	375	314

Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2008	2007
	(thousands)	
Revenue	$ 135	$ 115
Operating expenses	43	35
Accounts receivable	4	3
Accounts payable	3	3

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

Deloitte.

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Auditors' Report

To the Shareholder of SaskEnergy International Incorporated

We have audited the consolidated statement of financial position of SaskEnergy International Incorporated as at December 31, 2008 and the consolidated statements of income and deficit, comprehensive income (loss), accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 17, 2009

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2008	2007
Assets		
Current assets		
Accounts receivable	$ 4	$ 3
	4	3
Long-term investments (Note 5)	27,490	24,181
	$ 27,494	$ 24,184
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 2,410	$ 2,061
Accounts payable	137	132
Intercompany accounts payable	171	33
	2,718	2,226
Shareholder's equity		
Deficit	(1,324)	(2,347)
Accumulated other comprehensive loss (Note 6)	(3,284)	(5,079)
	(4,608)	(7,426)
Share capital (Note 7)	29,384	29,384
	24,776	21,958
	$ 27,494	$ 24,184

Commitments (Note 8)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Income and Deficit

Years ended December 31
(thousands of dollars)

	2008	2007
Revenue		
Share of equity investments' net income (Note 5)	$ 1,514	$ 2,049
Expenses		
Operating	433	327
Interest (Note 10)	58	81
	491	408
Net income	1,023	1,641
Deficit, beginning of year	(2,347)	(3,988)
Deficit, end of year	$ (1,324)	$ (2,347)

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Comprehensive Income (Loss)

Years ended December 31
(thousands of dollars)

	2008	2007
Net income	$ 1,023	$ 1,641
Other comprehensive income (loss)		
Unrealized gain (losses) on translating financial statements of self-sustaining foreign operations	1,795	(3,013)
Comprehensive income (loss)	$ 2,818	$ (1,372)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2008	2007
Accumulated other comprehensive loss, beginning of year	$ (5,079)	$ (2,066)
Other comprehensive income (loss)	1,795	(3,013)
Accumulated other comprehensive loss, end of year	$ (3,284)	$ (5,079)

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2008	2007
Operating Activities		
Net income	$ **1,023**	$ 1,641
Deduct items not requiring an outlay of cash		
Share of equity investments' net income	**(1,514)**	(2,049)
	(491)	(408)
Net change in non-cash working capital related to operations (Note 11)	**142**	20
Cash used in operating activities	**(349)**	(388)
Financing Activities		
Increase in bank indebtedness	**349**	388
Cash provided by financing activities	**349**	388
Decrease in cash during the year	**-**	-
Cash position, beginning of year	**-**	-
Cash position, end of year	$ **-**	$ -

(See accompanying notes)

1. Status of the Corporation

SaskEnergy International Incorporated (the Corporation) was incorporated under *The Canada Business Corporations Act* on February 17, 1981 and commenced international operations on March 1, 1996. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The Corporation is dependent upon the financial support of SaskEnergy.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, SaskEnergy Mexican Holdings Ltd, SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies:

a. Long-term investments

The Corporation accounts for its investments in Gas Sur S.A. and IGASAMEX USA Ltd. using the equity method.

b. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

2. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments.

Bank indebtedness is classified as held-for-trading. Accounts payable and intercompany accounts payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Shareholder's Equity.

c. Employees' future benefits

i. Pension plans

The Corporation participates in a defined contribution pension plan for all eligible employees. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations.*

Under the multiemployer plan the Corporation's obligations are limited to making regular payments to the plan for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

2. Summary of Significant Accounting Policies (continued)

d. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting of business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation's financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 4.

Effective January 1, 2008, SaskEnergy adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replace the existing CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 9.

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure.

The Corporation is an investment holding company with equity investments in Chile and Mexico. Recognizing the risk inherent in these investments, its parent, SaskEnergy, has funded the Corporation entirely through share capital.

4. Capital Disclosure (continued)

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $100,000 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice.

The Corporation's capital consists of shareholder's equity as the Corporation currently has no need for additional capital. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year. The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2008.

5. Long-Term Investments

Long-term investments are as follows:

	2008		2007	
	Amount (thousands)	**Per cent Ownership**	**Amount (thousands)**	**Per cent Ownership**
Equity investment				
Gas Sur S.A.				
Initial investment	**$ 13,784**	**30.0**	$ 13,784	30.0
Accumulated equity earnings	**3,338**		2,773	
Foreign currency translation adjustment	**(2,461)**		(1,964)	
	14,661		14,593	
IGASAMEX USA Ltd.				
Initial investment	**10,880**	**40.1**	10,880	40.1
Accumulated equity earnings	**2,772**		1,823	
Foreign currency translation adjustment	**(823)**		(3,115)	
	12,829		9,588	
	$ 27,490		$ 24,181	

a. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2008 net income was $565 thousand (2007 - $1,267 thousand). The Corporation's foreign currency translation adjustment for 2008 resulted in a $497 thousand reduction in the balance of the investment in Gas Sur S.A. (2007 - $1,367 thousand reduction).

The initial cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2007 - $5,100 thousand).

5. Long-Term Investments (continued)

b. IGASAMEX USA Ltd.

The Corporation's 40.1 per cent share of IGASAMEX USA Ltd.'s 2008 net income was $949 thousand (2007 - $782 thousand). The Corporation's foreign currency translation adjustment for 2008 resulted in a $2,292 thousand increase in the balance of the investment in IGASAMEX USA Ltd. (2007 - $1,646 thousand increase).

The initial cost of the investment exceeded the Corporation's underlying share of the net book value of IGASAMEX USA Ltd. by approximately $4,800 thousand (2007 - $4,800 thousand).

6. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2008	**2007**
	(thousands)	
Unrealized losses on translating financial statements of self-sustaining foreign operations	**$ (3,284)**	$ (5,079)

7. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There were 2,938,432 shares (2007 - 2,938,432) issued and outstanding.

8. Commitments

The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit was used as collateral for the Corporation's share of a line of credit issued to IGASAMEX USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if IGASAMEX USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

9. Financial Instruments and Risk Management

a. Financial instruments

The fair values of the Corporation's financial instruments, including accounts receivable, bank indebtedness, accounts payable and intercompany accounts payable approximate their carrying values due to the short-term nature of the instruments.

9. Financial Instruments and Risk Management (continued)

b. Risk management

The objectives, policies and processes for managing risk were consistent with the prior year.

i. Foreign currency exchange risk

The impact of foreign currency exchange risk in relation to the Corporation's expenditures is insignificant as the majority are in Canadian currency. However, the value of its long-term investments are impacted by changes in foreign currency, as discussed in Note 5.

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2008:

	6 months or less	7-12 months	1-2 years	3-5 years	More than 5 years
			(thousands)		
Bank indebtedness	$ 2,410	$ -	$ -	$ -	$ -
Accounts payable	137	-	-	-	-
Intercompany accounts payable	171	-	-	-	-
	$ 2,718	$ -	$ -	$ -	$ -

iii. Credit risk

The Corporation is exposed to credit risk through accounts receivable. The Corporation extends credit to its counterparties in the normal course of business. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its counterparties and may require letters of credit and other forms of security. At December 31, 2008 the maximum credit exposure to a single counterparty was $2 thousand (2007 - $1 thousand).

9. Financial Instruments and Risk Management (continued)

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2008	2007
	(millions)	
Accounts receivable	$ 4	$ 3
Maximum credit exposure	$ 4	$ 3

The following reflects an aging summary of the Corporation's accounts receivable:

	2008	2007
	(millions)	
Current	$ 4	$ 3
30 - 59 days	-	-
60 - 89 days	-	-
Greater than 90 days	-	-
	$ 4	$ 3

The Corporation does not have a provision for credit losses (2007 - $nil).

10. Interest Expense

During the year, the Corporation made payments for interest to the parent of $61 thousand (2007 - $79 thousand).

11. Net Change in Non-Cash Working Capital

	2008	2007
	(thousands)	
Accounts receivable	$ (1)	$ 10
Accounts payable	5	7
Intercompany accounts payable	138	3
	$ 142	$ 20

12. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy and its subsidiaries were as follows:

	2008	2007
	(thousands)	
Corporate expenses	$ 10	$ 44
Interest expense	$ 58	$ 81

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts payable on the statement of financial position.

13. Employees' Future Benefits

a. Pension plans

All employees of the Corporation are members of the defined contribution pension plan. During the year, the Corporation contributed $11 thousand (2007 - $10 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The unfunded defined benefit retiring allowance plan for management employees is as follows:

	2008	2007
	(thousands)	
Accrued benefit liability	$ 84	$ 81
Benefits paid during the year	-	-
Net expense	3	18

13. Employees' Future Benefits (continued)

The Corporation measures its accrued benefit liability as at December 31 of each year with an annual actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2008	**2007**
Discount rate	**7.1 per cent**	5.0 per cent
Inflation rate	**2.5 per cent**	2.5 per cent
Average remaining employee service life	**6.5 years**	7.5 years

Effective January 1, 2006 the retiring allowance for management employees was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements, under the retiring allowance plan, earned to December 31, 2005 will be paid out to management employees upon their retirement in accordance with the terms of the plan.

14. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

Deloitte.

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Auditors' Report

To the Shareholder of SaskEnergy Nova Scotia Holdings Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Nova Scotia Holdings Ltd. as at December 31, 2008 and the consolidated statements of income and comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 17, 2009

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2008	2007
Assets		
Current assets		
Cash	$ 18	$ 1,758
Accounts receivable	2,987	2,345
Intercompany accounts receivable	-	6
Inventories of supplies	89	134
Prepaid expenses	89	76
Gas cost variance account	-	54
	3,183	4,373
Property, plant and equipment (Note 6)	45,420	37,247
Revenue deficiency account (Note 7)	13,467	8,601
Deferred charges (Note 8)	269	140
	$ 62,339	$ 50,361
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	$ 3,943	$ 6,479
Intercompany accounts payable	198	158
Gas cost variance account	64	-
	4,205	6,637
Long-term debt (Note 9)	32,641	24,189
	36,846	30,826
Shareholder's equity		
Share capital (Note 10)	18,627	13,870
Retained earnings	6,866	5,665
	25,493	19,535
	$ 62,339	$ 50,361

Commitments (Note 12)

On behalf of the Board:

Director

Director

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

Consolidated Statement of Income and Comprehensive Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2008	2007
Revenue		
Commodity sales	$ 8,238	$ 4,248
Delivery	2,432	1,582
Allowance for funds used during construction (Note 6)	113	521
Revenue deficiency accrual (Note 7)	4,866	3,433
Other	28	29
	15,677	9,813
Expenses		
Cost of gas sold	8,238	4,248
Operating and maintenance	1,442	1,286
Interest (Note 13)	1,489	1,026
Amortization of property, plant and equipment	968	686
Amortization of deferred charges (Note 8)	55	55
Corporation capital tax	127	107
	12,319	7,408
Net income and comprehensive income	3,358	2,405
Dividends	(2,157)	-
Retained earnings, beginning of year	5,665	3,260
Retained earnings, end of year	$ 6,866	$ 5,665

(See accompanying notes)

SASKENERGY NOVA SCOTIA HOLDINGS LTD.
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2008	2007
Operating Activities		
Net income	$ 3,358	$ 2,405
Add (deduct) items not requiring an outlay of cash		
Allowance for funds used during construction	(113)	(521)
Amortization of property, plant and equipment	968	686
Amortization of deferred charges	55	55
Revenue deficiency accrual	(4,866)	(3,433)
Other non-cash items - including change in fair value of non-interest bearing loan	110	(907)
	(488)	(1,715)
Net change in non-cash working capital (Note 15)	(2,982)	2,702
Cash (used in) provided by operating activities	(3,470)	987
Investing Activities		
Additions to property, plant and equipment	(9,028)	(11,009)
Acquisition	-	(288)
Increase in deferred charges (Note 8)	(184)	(6)
Cash used in investing activities	(9,212)	(11,303)
Financing Activities		
Proceeds from long-term debt	8,342	7,241
Proceeds from share capital issue	4,757	4,009
Dividends paid	(2,157)	-
Cash provided by financing activities	10,942	11,250
(Decrease) increase in cash during the year	(1,740)	934
Cash position, beginning of year	1,758	824
Cash position, end of year	$ 18	$ 1,758

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Nova Scotia Holdings Ltd. (the Corporation) was created on September 13, 2002 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its 50.1 per cent proportionate share of the accounts of Heritage Gas Limited (Heritage Gas), accounted for as a joint venture.

b. Rate regulation

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). Heritage Gas' accounting policies conform to Canadian generally accepted accounting principles for rate regulated utilities and reflect the policies established by the NSUARB. The impact of rate regulation on the application of Canadian generally accepted accounting principles as described in notes 7 and 8 are as follows:

i. Return on rate base

Heritage Gas is allowed to earn a return on its rate base which is intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The rate base is the aggregate of Heritage Gas' investment in property, plant and equipment, revenue deficiency account and deferred charges, less accumulated amortization, plus working capital excluding the interest free loan from the Province of Nova Scotia (see Note 9b). The return is based on Heritage Gas' regulated capital structure as approved by the NSUARB.

2. Summary of Significant Accounting Policies (continued)

ii. Regulatory process – delivery tariffs

The Company's delivery tariffs are determined through a General Tariff Application (GTA) process, which establishes the Company's revenue requirement and the rates to be charged to various customer classes for a specific test period. The Company seeks approval of its revenue requirement through an administrative hearing before the NSUARB. Factors affecting the Company's revenue requirement include forecasts for rate base, distribution and other revenue, operating costs, amortization, capital taxes, income taxes and return on rate base. The approved revenue requirement and subsequent approved rates are based on forecasts and actual results can differ from these forecasts. The most recent completed GTA process occurred in 2006 which established the Company's revenue requirement and rates to be charged to various customer classes for the period January 1, 2007 - December 31, 2011.

iii. Revenue deficiency account

Heritage Gas has approval from the NSUARB to use a Revenue Deficiency Account (RDA). The RDA is based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the natural gas distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and the RDA will be drawn down.

iv. Allowance for funds used during construction

In accordance with accounting policies approved by the NSUARB, Heritage Gas capitalizes an imputed carrying cost on assets under construction at a rate approved by the NSUARB. This amount capitalized is disclosed on the income statement as allowance for funds used during construction (AFUDC). AFUDC is the amount that a rate-regulated enterprise is allowed to earn to recover its cost of financing assets under construction. It is calculated at the Heritage Gas' mid-month cost of construction work-in-progress multiplied by the Corporation's regulated weighted average cost of capital percentage. AFUDC is included in the cost of the related assets and recovered in future periods through amortization charges. Non-rate regulated companies generally capitalize interest on debt during construction of assets based on their actual cost of debt financing.

2. Summary of Significant Accounting Policies (continued)

v. Capitalized expenses

The NSUARB has approved the continued capitalization of operating and maintenance expenses to 2011. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

vi. Gas cost variance account

The gas cost variance account (GCVA) is the difference between the cost of natural gas sold and the current rate charged to customers. The balance in the GCVA is either recovered from or refunded to customers through adjustments to future rates.

vii. Property, plant and equipment

The AFUDC and capitalized expenses are amortized at rates authorized by the NSUARB.

Amortization of property, plant and equipment is calculated on a straight-line basis by applying a fixed rate to the cost at the previous year end as approved by the NSUARB. Approved amortization rates are as follows: (in per cent)

Distribution		Computer systems	20.0 to 33.0
- Franchise acquisition	4.0	Vehicles and equipment	5.0 to 16.4
- Mains and services	2.1 to 2.7	Tools and furniture	5.0
- Regulating and meter stations	2.6 to 4.2	Leaseholds	Lease term
- Meters	3.5		

viii. Cost of gas sold

Cost of gas sold is the cost of gas purchased for resale to customers. Charges for gas delivered are based on the forecast cost of natural gas. Differences between the forecast cost and the actual cost of natural gas are deferred for refund to, or collection from, customers in subsequent periods.

ix. Income taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income. Non-rate regulated companies would account for income taxes using the liability method and record a future income tax asset or liability less a valuation provision if realization of the assets was not considered more likely than not.

2. Summary of Significant Accounting Policies (continued)

x. Deferred charges

Costs incurred by Heritage Gas related to its regulatory proceedings are deferred and amortized on a straight- line basis over a period as approved by the NSUARB.

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

d. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus capitalized expenses and an AFUDC.

Certain additions to property, plant and equipment are made with the assistance of contributions in aid of construction. Contributions in aid of construction are offset against the corresponding asset balances and amortized at the same rate as the corresponding asset.

e. Revenue recognition

Revenue includes revenue from the distribution of natural gas and recovery of the cost of natural gas paid to suppliers, and the related natural gas supply costs. Revenue is recognized when natural gas is delivered or services are performed. Distribution revenue is recorded on the basis of regular meter readings and estimates of customer usage from the date of the last meter reading to the end of the reporting period. Operations are subject to regulation and, accordingly, revenue is recognized in a manner that is consistent with the underlying rate-setting mechanism as mandated by the NSUARB. Delivery rates are designed to recover the total cost of delivery and an approved rate of return on equity.

f. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

2. Summary of Significant Accounting Policies (continued)

Cash is classified as held-for-trading. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments.

Accounts payable and intercompany accounts payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and, with the exception of the non-interest bearing loan, is recorded at amortized cost. The non-interest bearing loan is from the Province of Nova Scotia and is recorded at fair value using the effective interest method and accounted for as a government grant, which has been applied as a reduction to property, plant and equipment. The change in the fair value of the non-interest bearing loan is recognized in interest expense.

Embedded derivatives are recorded at fair value on the statement of financial position.

g. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for goodwill and intangible assets, Section 3064 – Goodwill and Intangible Assets, which is effective for fiscal years beginning on or after October 1, 2008. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Corporation has determined that the impact of this section on its financial statements will not be significant.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

The CICA issued a decision to remove the temporary exemption in Section 1100 – GAAP pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation; to amend Section 3465 – Income Taxes to require the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers; and to make these changes applicable prospectively to fiscal years beginning on or after January 1, 2009. The Corporation is currently evaluating the potential impact of this section on its financial statements.

3. Changes in Accounting Policies

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 1535 – Capital Disclosures in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether the Corporation has complied with externally imposed capital requirements. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 4.

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation in accordance with the transition provisions of the sections. These sections replace the existing CICA Handbook Section 3861 – Financial Instruments – Presentation and Disclosure. The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results. The new required disclosure is provided in Note 14

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure.

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy whereby it may borrow $3.8 million on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice. In addition, the Corporation may borrow long-term debt from its parent, through the Subsidiary Debt Agreement, upon approval by its Board of Directors.

The Corporation's capital consists of long-term debt having a term to maturity greater than one year and shareholder's equity. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year. The Corporation complied with all externally imposed requirements on its capital for the year ended December 31, 2008.

5. Revolving Demand Facility

The Corporation, through its interest in Heritage Gas, has a $501 thousand (2007 - $501 thousand) revolving demand facility with a Canadian chartered bank, bearing interest at bank prime plus one per cent, which is secured by a General Security Agreement over all personal property of Heritage Gas.

6. Property, Plant and Equipment

	2008			2007		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Franchise acquisition costs	$ 1,668	$ 334	$ 1,334	$ 1,668	$ 267	$ 1,401
Mains and services	43,701	1,471	42,230	35,105	779	34,326
Regulating and metering stations	370	213	157	370	114	256
Meters	1,182	41	1,141	753	21	732
Computer systems	333	190	143	230	160	70
Vehicles and equipment	363	96	267	349	63	286
Tools, furniture and leaseholds	239	91	148	239	63	176
	$ 47,855	$ 2,435	$ 45,420	$ 38,714	$ 1,467	$ 37,247

Franchise acquisition costs represent payments made for expenditures incurred to acquire the franchise.

In 2008, the Corporation recorded $113 thousand (2007 - $521 thousand) in AFUDC. The cumulative AFUDC recorded as at December 31, 2008 was $1,700 thousand (2007 - $1,587 thousand).

Included in mains and services is work in progress in the amount of $2,653 thousand for the year ended December 31, 2008 (2007 - $3,419 thousand). Work in progress is not depreciated until the year after the plant is brought into active service, as approved by the NSUARB.

The capitalization of operating and maintenance expenses effectively decreased expenses and increased property, plant and equipment in 2008 by $1,393 thousand (2007 - $1,490 thousand). The cumulative operating expenses capitalized as at December 31, 2008 were $8,535 thousand (2007 - $7,142 thousand).

6. Property, Plant and Equipment (continued)

The Corporation has recorded an entry for $1,017 thousand as government assistance which has been applied as a reduction of property, plant and equipment (mains and services) and is being amortized on a straight-line basis using a 3.0 per cent annual rate, being the average life of the distribution assets to which the government assistance related. The current carrying value of this government assistance is $956 thousand (2007 - $987 thousand).

On October 23, 2007, Heritage Gas acquired 100 per cent of the issued and outstanding shares of Cajun Holding & Development Company Limited for $576 thousand. The purchase price was allocated to property, plant and equipment.

In 2004, Heritage Gas constructed certain assets related to a large customer within its franchise area. In 2006, Heritage Gas activated the assets to supply other customers, and pursuant to a decision issued by the NSUARB on December 21, 2006, included a portion of the asset cost ($250 thousand) in rate base and the relevant operating costs in rates. Discussions continue with the large customer to fully utilize the assets, and the Corporation continues to explore alternative uses of these assets and is confident that these assets will be fully utilized in the foreseeable future. Based on projected cash flows, management does not consider the current value of the assets to be impaired. However, significant changes in results from those assumed in the current business plan could impact the estimated cash flows and should the economic values of these assets be determined to be impaired, a reduction in the net book value of these assets could be material to net income. The assets which have not been put into service are not being amortized. Beginning on January 1, 2008, the assets are not being included in work-in-process calculations for the purposes of determining AFUDC.

7. Revenue Deficiency Account

	2008	2007
	(thousands)	
Revenue deficiency account, beginning of year	$ 8,601	$ 5,168
Accrued during year	4,866	3,433
Revenue deficiency account, end of year	$ 13,467	$ 8,601

The impact of the current year accrual was to increase revenue and increase the revenue deficiency account.

8. Deferred Charges

Deferred charges include third party costs related to regulatory proceedings. These costs are being amortized on a straight-line basis over a five-year period as approved by the NSUARB.

	2008	2007
	(thousands)	
Deferred charges, beginning of year	$ 140	$ 189
Costs incurred during year	184	6
Amortization	(55)	(55)
Deferred charges, end of year	$ 269	$ 140

9. Long-Term Debt

	2008		**2007**	
	Principal Outstanding (thousands)	**Fixed Interest Rate (per cent)**	**Principal Outstanding (thousands)**	**Fixed Interest Rate (per cent)**
Note payable to parent	**$ 30,632**	**5.3**	$ 22,290	5.3
Province of Nova Scotia	**2,009**	-	1,899	-
	$ 32,641		$ 24,189	

a. Note payable to parent

The Corporation has received $8,342 thousand in loans from SaskEnergy to fulfill ownership obligations to finance its proportionate share of Heritage Gas funding requirements (2007 - $7,241 thousand). The effective interest rate for notes payable to parent was 5.3 per cent (2007 - 5.3 per cent).

Principal repayments due in each of the next five years are as follows: (thousands)

2009	**2010**	**2011**	**2012**	**2013**
$ -	$ -	$ -	$ 30,632	$ -

b. Province of Nova Scotia

During 2006, $3,808 thousand was received from the Province of Nova Scotia. The Province of Nova Scotia loan is non-interest bearing. If certain prescribed revenue targets are achieved, interest will accumulate on a prospective basis at a rate of 6.0 per cent. The Province of Nova Scotia loan is guaranteed by the Corporation based on its proportionate ownership interest in Heritage Gas. On or before July 1, 2011, Heritage Gas may elect to fully repay the loan at any time without penalty. Heritage Gas must elect to either repay the loan in one lump sum payment on July 31, 2014, or in five equal annual instalments, beginning on July 31, 2012.

A fair value adjustment of $1,017 thousand has been recorded as a reduction to this long-term debt and is being amortized over the expected term of the loan. The fair value adjustment, net of accumulated interest recorded at December 31, 2008 was $797 thousand (2007 - $907 thousand).

10. Share Capital

Authorized share capital consists of an unlimited number of class A common voting shares without nominal or par value.

	2008		2007	
	Shares	Amount (thousands)	Shares	Amount (thousands)
Share capital, beginning of year	**13,869,613**	**$ 13,870**	9,860,838	$ 9,861
Issued during the year	**4,757,144**	**4,757**	4,008,775	4,009
Share capital, end of year	**18,626,757**	**$ 18,627**	13,869,613	$ 13,870

11. Other Comprehensive Income

CICA Handbook Section 1530 – Comprehensive Income establishes standards for the reporting and disclosure of comprehensive income. The Corporation does not have any items that required separate recognition outside of net income, and as a result, the adoption of this section did not have any impact on the Corporation's financial statements. Comprehensive income is equivalent to net income for the year ended December 31, 2008.

12. Commitments

Future minimum lease payments under operating leases for office space and office equipment are estimated as follows: (thousands)

2009	2010	2011	2012	2013
$ 123	$ 102	$ 15	$ 14	$ 6

13. Interest Expense

	2008	2007
	(thousands)	
Interest on long-term debt	**$ 1,522**	$ 1,067
Interest on short-term investment	**(33)**	(41)
	$ 1,489	$ 1,026

Interest paid during 2008 on long-term debt was $1,380 thousand (2007 - $937 thousand).

14. Financial Instruments and Risk Management

a. Financial instruments

The fair value of the Corporation's financial instruments are listed below:

	2008		2007	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
		(thousands)		
Other Liabilites				
Note payable to parent	$ 30,632	$ 33,533	$ 22,290	$23,266
Province of Nova Scotia loan	2,009	2,009	1,899	1,899

The fair value of other financial instruments, including cash, accounts receivable, intercompany accounts receivable, accounts payable and intercompany accounts payable approximate their carrying value due to the short-term nature of the instruments.

b. Risk management

The objectives, policies and processes for managing risk were consistent with the prior year.

i. Foreign currency exchange

The impact of foreign currency exchange risk in relation to Heritage Gas' natural gas purchases is insignificant as the difference is either recovered from or refunded to customers through adjustments to future rates.

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For the following financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2008:

	6 months or less	7-12 months	1-2 years	3-5 years	More than 5 years
			(thousands)		
Accounts payable	$ 3,943	$ -	$ -	$ -	$ -
Intercompany accounts payable	198	-	-	-	-
Note payable to parent	804	804	1,608	33,848	-
Province of Nova Scotia loan	-	-	-	-	2,806
	$ 4,945	$ 804	$ 1,608	$ 33,848	$ 2,806

The note payable to parent obligations and Province of Nova Scotia loan include principal and interest payments.

14. Financial Instruments and Risk Management (continued)

iii. Credit risk

The Corporation is exposed to credit risk through cash and accounts receivable. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and may require letters of credit and other forms of security.

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2008	2007
	(thousands)	
Cash	**$ 18**	$ 1,758
Accounts receivable	**2,987**	2,345
Intercompany accounts receivable	**-**	6
Maximum credit exposure	**$ 3,005**	$ 4,109

The following reflects an aging summary of the Corporation's accounts receivable:

	2008	2007
	(thousands)	
Current	**$ 2,793**	$ 2,302
30 - 59 days	**168**	52
60 - 89 days	**42**	3
Greater than 90 days	**7**	6
	3,010	2,363
Allowance for doubtful accounts	**(23)**	(18)
	$ 2,987	$ 2,345

The Corporation maintains provisions for credit losses which are assessed regularly.

15. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	2008	2007
	(thousands)	
Accounts receivable	$ (642)	$ (968)
Intercompany accounts receivable	6	(4)
Inventories of supplies	45	(45)
Prepaid expenses	(13)	(7)
Gas cost variance account	118	(46)
Accounts payable	(2,536)	3,734
Intercompany accounts payable	40	38
	$ (2,982)	$ 2,702

16. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Included in these financial statements are transactions with SaskEnergy, and amounts outstanding at year end, as follows:

	2008	2007
	(thousands)	
Interest income from parent	$ 36	$ 41
Operating and maintenance	86	69
Interest expense on note payable to parent	1,418	965
Accounts payable	7	10
Interest payable on note payable to parent	127	89

Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

17. Joint Venture Interest

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent proportionate share of Heritage Gas.

a. Consolidated statement of financial position

	2008	2007
	(thousands)	
Current assets	**$ 3,661**	$ 3,448
Property, plant and equipment	**45,420**	37,247
Revenue deficiency account	**13,467**	8,601
Deferred charges	**269**	140
Current liabilities	**(3,974)**	(6,515)
Net investment	**$ 58,843**	$ 42,921

b. Consolidated statement of income

	2008	2007
	(thousands)	
Revenue	**$ 15,677**	$ 9,813
Expenses	**(10,777)**	(6,302)
Net income	**$ 4,900**	$ 3,511

c. Consolidated statement of cash flows

	2008	2007
	(thousands)	
Cash (used in) provided by operating activities	**$ (1,996)**	$ 598
Cash used in investing activities	**(9,212)**	(11,303)
Decrease in cash	**$ (11,208)**	$ (10,705)

18. Income Taxes

Heritage Gas is subject to Federal and Provincial income taxes in Canada. As at December 31, 2008, Heritage Gas had approximately $32,550 thousand in losses available to reduce future income taxes. These losses can be claimed no later than:

2010	2014	2015	2026	2027	2028
$ 1,218	$ 4,173	$ 3,963	$ 7,018	$ 7,593	$ 8,585

As of December 31, 2008, the unrecognized future income tax assets of Heritage Gas were approximately $3,563 thousand (2007 - $2,489 thousand).

19. Subsequent Event

Additional common shares of $470 thousand were purchased and $1,183 thousand in loans were advanced to the Corporation by SaskEnergy on January 8, 2009.

Heritage Gas Limited

Consolidated Financial Statements
December 31, 2008

PRICEWATERHOUSECOOPERS

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February 3, 2009

Auditors' Report

To the Shareholders of
Heritage Gas Limited

We have audited the consolidated balance sheet of **Heritage Gas Limited** (the Company) as at December 31, 2008 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

Heritage Gas Limited
Consolidated Balance Sheets
As at December 31, 2008

	2008	2007
	$	$
Assets (note 3)		
Current assets		
Cash	1,132,113	1,663,754
Accounts receivable	5,962,715	4,721,064
Inventory of supplies	177,919	267,909
Prepaid expenses	177,278	151,645
Gas cost variance account	-	109,863
	7,450,025	6,914,235
Property, plant and equipment (note 6)	90,659,223	74,344,831
Revenue deficiency account (note 7)	26,880,219	17,168,273
Deferred charges (note 8)	536,374	278,942
	125,525,841	98,706,281
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	9,262,120	13,977,495
Gas cost variance account	127,379	-
	9,389,499	13,977,495
Long-term debt (note 9)	65,151,830	48,280,964
	74,541,329	62,258,459
Shareholders' Equity		
Capital stock (note 10)	37,179,151	27,683,853
Retained earnings	13,805,361	8,763,969
	50,984,512	36,447,822
	125,525,841	98,706,281

Commitments (note 11)

See accompanying notes to the financial statements

Approved by the Board of Directors

Director

Director

Heritage Gas Limited

Consolidated Statements of Income, Comprehensive Income and Retained Earnings

For the year ended December 31, 2008

	2008 $	2007 $
Revenue		
Natural gas sales and distribution revenue	21,296,721	11,443,695
Cost of natural gas sales	16,443,338	8,284,968
Gas distribution margin	4,853,383	3,158,727
Allowance for funds used during construction (note 6)	225,584	1,040,489
Revenue deficiency accrual (note 7)	9,711,946	6,854,132
Municipal tax	238,022	133,337
Other	34,590	40,179
	15,063,525	11,226,864
Expenses		
Operating and maintenance (note 6)	2,563,340	2,205,682
Amortization of deferred charges	110,400	110,400
Amortization of property, plant and equipment	1,931,383	1,368,987
Corporate capital tax	254,000	212,644
Interest expense (note 12)	4,924,988	3,412,704
Municipal tax expense	238,022	133,337
	10,022,133	7,443,754
Net income and comprehensive income for the year	5,041,392	3,783,110
Retained earnings – Beginning of year	8,763,969	4,980,859
Retained earnings – End of year	13,805,361	8,763,969

See accompanying notes to the financial statements

Heritage Gas Limited

Consolidated Statements of Cash Flows

For the year ended December 31, 2008

	2008 $	2007 $
Cash provided by (used in)		
Operating activities		
Net income for the year	5,041,392	3,783,110
Charges (credits) to income not involving cash		
Allowance for funds used during construction	(225,584)	(1,040,489)
Amortization of deferred charges	110,400	110,400
Amortization of property, plant and equipment	1,931,383	1,368,987
Fair market value adjustment	220,164	220,166
Revenue deficiency accrual	(9,711,946)	(6,854,132)
	(2,634,191)	(2,411,958)
Net change in non-cash working capital balances (note 13)	(124,934)	(3,381,448)
	(2,759,125)	(5,793,406)
Investing activities		
Additions to property, plant and equipment	(23,550,684)	(14,984,301)
Increase in deferred charges	(367,832)	(11,777)
Acquisition of subsidiary (note 5)	-	(576,322)
	(23,918,516)	(15,572,400)
Financing activities		
Increase in shareholders' loans	16,650,702	14,453,449
Issuance of capital stock	9,495,298	8,001,551
	26,146,000	22,455,000
Net change in cash during the year	(531,641)	1,089,194
Cash – Beginning of year	1,663,754	574,560
Cash – End of year	1,132,113	1,663,754

Supplementary cash flow information (note 13)

See accompanying notes to the financial statements

1 Status of the Company

Heritage Gas Limited (the Company) was incorporated on August 13, 2002 under The Canada Business Corporations Act.

The shareholders and their respective ownership interests are as follows:

SaskEnergy Nova Scotia Holdings Ltd.	50.1%
Silgascorp Inc.	25.0%
AltaGas Utility Holdings (Nova Scotia) Inc.	24.9%

On August 16, 2002, the Company applied for a full regulation class franchise for specific areas in Nova Scotia pursuant to The Gas Distribution Act (Nova Scotia). The Nova Scotia Utility and Review Board (NSUARB) awarded the Company the franchise to distribute natural gas to all or part of six counties in the Province of Nova Scotia on February 7, 2003 which the Company accepted on June 3, 2003. The franchise term is 25 years.

2 Basis of presentation

a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Cajun Holding & Development Company Limited.

b) Changes in accounting policies

Effective January 1, 2008, the Company adopted the new CICA Handbook accounting requirements for Section 1400 "General Standards on Financial Statement Presentation", Section 1535 "Capital Disclosures", Section 3031 "Inventories", Section 3862 "Financial Instruments Disclosures" and Section 3863 "Financial Instruments Presentation". In accordance with the transitional provisions for these new standards, these policies were adopted prospectively without restatement of prior periods.

i) General standards of financial statement presentation

Effective January 1, 2008, the Company adopted the CICA guidelines of Section 1400 "General standards of financial statement presentation". Section 1400 has been amended to include requirements to assess an entity's ability to continue as a going concern. The adoption of this standard will have no impact on the Company's operating results or financial position and management expects that there will not be a material impact on the Company's financial statement disclosure.

2 Basis of presentation (continued)

b) Changes in accounting policies (continued)

ii) Capital disclosure

Effective January 1, 2008, the Company adopted the new CICA Handbook Section 1535 "Capital disclosures". Section 1535 requires the disclosure of qualitative and quantitative information about the Company's objectives, policies and processes for managing capital (Note 3(o)).

iii) Inventories

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031 "Inventories". Section 3031 provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes costs to purchase and other costs incurred in bringing the inventories to their present location. Costs such as storage costs and administrative overheads that do not contribute to bringing the inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of the inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

iv) Financial instruments

Effective January 1, 2008, the Company adopted the new CICA Handbook Section 3862 "Financial instruments – disclosures" and Section 3863 "Financial instruments – presentation". These Sections replace Section 3861 and prescribe the requirements for presentation and disclosure of financial instruments. Section 3862 requires disclosure intended to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments and how the entity manages those risks (Note 14). Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains and the circumstances in which financial assets and financial liabilities are offset.

3 Significant accounting policies

a) Regulation

The Company is engaged in the distribution of natural gas in Nova Scotia and is regulated by the NSUARB. The regulations cover such matters as tariffs, rates, construction, operations, financing, and accounting. The Company's accounting policies conform to generally accepted accounting principles in the gas distribution industry and reflect the policies prescribed by the NSUARB. Rate regulation creates differences between the manner in which the Company accounts for transactions or events and how they would be accounted for if the Company was not subject to rate regulation. Differences in accounting treatment arise from adoption of the following rate regulated accounting practices:

- the use of a revenue deficiency account (note 3(d));
- recognizing an allowance for funds used during construction (note 3(l));
- using a gas cost variance account in the recovery of gas costs from customers (note 3(i));
- capitalizing certain operating and maintenance expenses (notes 3(j) and 6);
- using the taxes payable method and not accounting for future income taxes (note 3(k));
- amortizing property, plant and equipment (note 3(f)) differently from enterprises not subject to rate regulation; and
- deferring costs related to the regulatory hearings (notes 3(m) and 8).

b) Return on rate base

The Company is allowed the opportunity to earn a return on its rate base intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The Company's return on rate base is equal to the sum of (a) its net rate base multiplied by the allowed equity component percentage multiplied by the allowed rate of return on equity, plus (b) its net rate base multiplied by the allowed debt component percentage multiplied by the allowed regulatory rate for debt. The rate base is the aggregate of the Company's investment in plant, property and equipment, revenue deficiency account, inventory of supplies, prepaid expenses and deferred charges, less accumulated amortization, plus working capital. The net rate base excludes from the rate base no-cost capital, which consists of an interest free loan from the Province of Nova Scotia, which is described in note 9.

The Company's current regulated capital structure was approved by the NSUARB in 2003 and is set at 55% for debt and 45% for equity. The capital structure will remain unchanged until at least December 31, 2011. The rate of return on common equity was approved by the NSUARB in 2003, is set at 13% and the allowed regulatory rate for debt was approved by the NSUARB in 2003, is set at 8.75%. Both rates will remain unchanged until at least December 31, 2011.

3 Significant accounting policies (continued)

c) Regulatory process – delivery tariffs

The Company's delivery tariffs are determined through a General Tariff Application (GTA) process, which establishes the Company's revenue requirement and the rates to be charged to various customer classes for a specific test period. The Company seeks approval of its revenue requirement through an administrative hearing before the NSUARB. Factors affecting the Company's revenue requirement include forecasts for rate base, distribution and other revenue, operating costs, amortization, capital taxes, income taxes and return on rate base. The approved revenue requirement and subsequent approved rates are based on forecasts and actual results can differ from these forecasts. The most recent completed GTA process occurred in 2006 which established the Company's revenue requirement and rates to be charged to various customer classes for the period January 1, 2007 – December 31, 2011.

d) Revenue deficiency account (RDA)

The Company has approval from the NSUARB to use a RDA until it is fully recovered. The RDA is debited or credited based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. In the Company's customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore a RDA asset will accumulate. As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down.

e) Inventory of supplies

Inventory of supplies consists primarily of pipe and general materials for construction and maintenance and is recorded at average cost.

f) Property, plant and equipment

Property, plant and equipment are recorded at cost and include all costs of materials, labour and services to construct or purchase plus capitalized operating and maintenance expenses (note 3 (j)) and an allowance for funds used during construction (AFUDC) (note 3 (l)).

The capitalized expenses and AFUDC are capitalized and amortized at rates authorized by the NSUARB.

Amortization of property, plant and equipment is calculated on a straight-line basis by applying a fixed rate to the cost at the previous year-end, as approved by the NSUARB.

3 Significant accounting policies (continued)

f) Property, plant and equipment (continued)

Franchise acquisition	4.00%
Mains and services	2.10% - 2.70%
Regulating and metering stations	2.56% - 4.18%
Meters	3.51%
Computer systems	20.00% - 33.00%
Vehicles and equipment	5.00% - 16.38%
Tools and furniture	5.00%
Leaseholds	Over the term of the lease

Certain additions to property, plant and equipment are made with the assistance of contributions in aid of construction. Contributions in aid of construction are offset against the corresponding asset balances and amortized at the same rate as the corresponding asset.

The Company has not recorded an asset retirement obligation due to the indeterminate life of its distribution and supply network and corresponding indeterminable timing and scope of asset retirements.

g) Revenue recognition

Revenues include revenue from the distribution of natural gas and recovery of the Company's cost of gas paid to suppliers, and the associated gas supply costs. The Company recognizes revenues as earned when gas has been delivered or services have been performed. Gas distribution revenues are recorded on the basis of regular meter readings and estimates of customer usage from the date of the last meter reading to the end of the reporting period. The Company's operations are subject to regulation and, accordingly, revenue is recognized in a manner that is consistent with the underlying rate-setting mechanism as mandated by the NSUARB. The Company's delivery charges are designed to recover the Company's total cost of delivery and an approved return on equity.

h) Cost of natural gas sales

Cost of natural gas sales is the cost of gas purchased for resale to customers. Charges for gas delivered are based on the forecast cost of natural gas and variances between the forecast cost and the actual cost of natural gas are deferred for refund to, or collection from, customers in subsequent periods.

i) Gas cost variance account (GCVA)

GCVA is the difference between the cost to purchase natural gas and the current rate charged to customers. The GCVA balance is recovered from or refunded to customers through adjustments to future charges.

3 Significant accounting policies (continued)

j) Capitalized expenses

The NSUARB has approved in its decision rendered on December 21, 2006, that the Company can continue to capitalize certain operating and maintenance expenses to 2011. If the Company was not subject to rate regulation, certain of these amounts would not be capitalized.

k) Income taxes

Income taxes are provided by the Company using the taxes payable method as approved by the NSUARB and as such no future income taxes are recognized in the financial statements. The Company is a rate-regulated enterprise and all future income taxes are expected to be recovered in the rates charged to customers in the future. Non-rate regulated companies would account for income taxes on the liability method and record future income tax asset or liability less a valuation provision if realization of the assets is not considered more likely than not.

l) Allowance for funds used during construction (AFUDC)

In accordance with accounting policies approved by the NSUARB, the Company capitalizes an imputed carrying cost on assets under construction at a rate approved by the NSUARB. This amount capitalized is disclosed on the income statement as AFUDC. AFUDC is the amount that a rate-regulated enterprise is allowed to earn to recover its cost of financing assets under construction. It is calculated at the Company's mid-month cost of construction work-in-progress multiplied by the Company's regulated weighted average cost of capital percentage. AFUDC is included in the cost of the related assets and recovered in future periods through amortization charges. Non-rate regulated companies generally capitalize interest on debts during construction of assets based on their actual cost of debt financing.

m) Deferred charges

Costs incurred by the Company related to its regulatory proceedings are deferred and amortized on a straight-line basis over the period to which the charges relate and as approved by the NSUARB.

n) Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results may differ from those estimates.

3 Significant accounting policies (continued)

o) Capital disclosure

The Company's objective for managing capital is to approximate the regulated capital structure as set by the NSUARB while ensuring the availability of sufficient funds to execute its business plan. The Company therefore considers Shareholders' Equity and Shareholders' loans to be part of its capital structure and uses debt and equity in the proportions to approximate the regulated 55:45 debt to equity ratio.

p) Future accounting changes

i) Goodwill and intangible assets

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the new CICA Handbook Section 3064 will replace Section 3062 - Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets including internally generated intangible assets. This new section is effective for the Company beginning January 1, 2009. The Company has determined that the impact of this section on its financial statements will not be significant. Intangible assets totaling $2.7 million as at December 31, 2008, which are currently presented as property, plant and equipment, are expected to be reclassified and separately presented as intangible assets on the balance sheet.

ii) Rate regulated entities

The CICA issued a decision to remove the temporary exemption in Section 1100 - GAAP, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation; to amend Section 3465 - Income Taxes, to require the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers; and to make these changes applicable prospectively to fiscal years beginning on or after January 1, 2009.

While the Company is currently researching other impacts of the adoption of these standards, it is anticipated that adoption will impact the Company as follows:

(1) Reserves for future removal and site restoration costs, which are not currently recognized, are expected to be recognized as non-current liabilities, resulting in an increase to the Company's costs and total liabilities. The company has not yet determined the impact this will have on its financial statements; and

(2) The future income tax asset, valued at $3,563,000 as at December 31, 2008, will be recognized upon adoption of Section 3465 and measured at a value considered to be more likely than not realizable.

3 Significant accounting policies (continued)

p) Future accounting changes (continued)

iii) International financial reporting standards (IFRS)

The CICA Accounting Standards Board (AcSB) plans to converge Canadian GAAP for publicly accountable enterprises with IFRS over a transition period that will end January 1, 2011 with the adoption of IFRS. The AcSB announced on February 13, 2008 that IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has initiated its scoping and planning process, but has not yet determined the impact of the transition to and adoption of IFRS on its financial statements.

4 Revolving demand facility

The Company has a $1,000,000 revolving demand facility with a Canadian chartered bank, bearing interest at bank prime plus 1%, which is secured by a General Security Agreement over all personal property of the Company.

5 Business acquisition

On October 23, 2007, the Company acquired 100% of the issued and outstanding shares of Cajun Holding & Development Company Limited for $576,322. The purchase method has been used to account for the acquisition, totally comprised of land, and the purchase price was allocated to Property, plant and equipment (mains and services) as this was the only net asset of the subsidiary.

6 Property, plant and equipment

The Company's natural gas distribution network is comprised of mains, service lines and measuring and regulating equipment and facilities.

	2008			2007
	Cost $	**Accumulated amortization $**	**Net book value $**	**Net book value $**
Franchise acquisition	3,328,676	666,282	2,662,394	2,795,541
Mains and services	87,227,068	2,936,511	84,290,557	68,514,297
Regulating and metering stations	737,999	424,939	313,060	511,045
Meters	2,360,293	81,368	2,278,925	1,462,618
Computer systems	664,403	378,191	286,212	138,965
Vehicles and equipment	723,972	192,449	531,523	571,219
Tools, furniture and leaseholds	477,374	180,822	296,552	351,146
	95,519,785	4,860,562	90,659,223	74,344,831

In 2004, the Company constructed assets under a contract to service a large customer. These assets have been recorded as property, plant and equipment and at December 31, 2005, the customer had not activated the assets to supply other customers and, pursuant to a decision by the NSUARB on December 21, 2006, included a portion of the asset cost ($250,000) in rate base and the relevant amortization and operating costs in rates. Discussions continue with the large customer to fully utilize the assets, and the Company continues to explore alternative uses of these assets and is confident that these assets will be fully utilized and included in rate base in the foreseeable future. Management does not consider the current value of the assets to be impaired. However, significant changes in results from those assumed in the current business plan could impact the estimated cash flows and should the economic values of these assets be determined to be impaired, a reduction in the book value of these assets could be material to income. The assets which have not been put into service are not being amortized. Beginning on January 1, 2008, the assets are not being included in work-in-process calculations for the purposes of determining AFUDC.

The Company has recorded $225,584 (2007 - $1,040,489) in AFUDC.

The Company has capitalized $2,780,946 (2007 - $2,973,474) of operating and maintenance expenses during the year. The effect of capitalizing operating expenses was to decrease expenses and increase property, plant and equipment.

Included in mains and services is work-in-progress in the amount of $5,295,485 for the year ended December 31, 2008 (2007 - $6,824,201). Depreciation of work-in-progress begins the year after the plant is brought into active service, as approved by the NSUARB.

6 Property, plant and equipment (continued)

The Company has received $2,030,349 in government assistance which was recorded as a reduction of property, plant and equipment (mains and services) and is being amortized on a straight-line basis using a 3% annual rate, being the average life of the distribution assets to which the government assistance related. The net book value of this government assistance is $1,908,526 (2007 - $1,969,438).

7 Revenue deficiency account (RDA)

	2008 $	2007 $
Beginning of year	17,168,273	10,314,141
Revenue deficiency accrued during the year	9,711,946	6,854,132
End of year	26,880,219	17,168,273

The effect of accruing this revenue was to increase revenue and increase the RDA.

8 Deferred charges

	2008 $	2007 $
Deferred charges	1,059,838	692,006
Accumulated amortization	(523,464)	(413,064)
	536,374	278,942

9 Long-term debt

	2008 $	2007 $
Shareholders' loans		
SaskEnergy Nova Scotia Holdings Ltd.	30,632,065	22,290,065
Silgascorp Inc.	15,285,462	11,122,786
AltaGas Utility Holdings (Nova Scotia) Inc.	15,224,322	11,078,296
	61,141,849	44,491,147
Province of Nova Scotia		
Province of Nova Scotia loan	5,600,000	5,600,000
Less: Fair market value adjustment	(1,590,019)	(1,810,183)
	4,009,981	3,789,817
	65,151,830	48,280,964

Shareholders' loans are unsecured and carry an NSUARB approved interest rate of 8.75% with interest paid quarterly. All shareholders' loans are to be repaid in full on December 31, 2010. During the year, interest recorded on shareholders' loans was $4,718,835 (2007 - $3,207,953).

The Province of Nova Scotia loan is non-interest bearing. If certain prescribed revenue targets are achieved, interest will immediately begin to accumulate on a prospective basis at a rate of 6% per annum. The Province of Nova Scotia loan is guaranteed on a proportionate basis of ownership by the shareholder companies. The Company may elect to fully repay the loan at any time with no penalty. On or before July 1, 2011, the Company must elect to either repay the loan in one lump sum payment on July 31, 2014, or in five equal annual instalments, beginning on July 31, 2012.

The Company has recorded a fair market value adjustment of $2,030,349 to the face value of the Province of Nova Scotia loan and the adjustment is being accreted over the expected term of the loan. The Company used the interest method to calculate the amortized cost of the financial liability and to allocate the interest expense over the relevant term of the financial liability. The Company used an effective interest rate of 6% to discount the estimated cash flows associated with this financial instrument over the expected term of the instrument. The carrying value of this fair market adjustment, net of accretion, is $1,590,019 (2007 – $1,810,183).

10 Capital stock

Authorized

Unlimited number of common shares without nominal or par value

	Shares	$
Issued and outstanding		
December 31, 2006	19,682,302	19,682,302
Issued during 2007 for cash	8,001,551	8,001,551
December 31, 2007	27,683,853	27,683,853
Issued during 2008 for cash	9,495,298	9,495,298
December 31, 2008	37,179,151	37,179,151

11 Commitments

Future minimum lease payments for the next five years under operating leases for office space and office equipment are estimated as follows:

	$
Year ending December 31, 2009	246,431
2010	202,747
2011	29,692
2012	28,250
2013	11,771

12 Interest expense

	2008 $	2007 $
Interest expense on shareholders' loans	4,718,835	3,207,953
Interest accreted (note 9)	220,164	220,166
Guarantee fees paid to shareholders	38,104	38,000
Interest income net of bank charges	(52,115)	(53,415)
	4,924,988	3,412,704

13 Supplementary cash flow information

	2008 $	2007 $
a) Net change in non-cash working capital		
Accounts receivable	(1,241,651)	(1,971,443)
Inventory of supplies	89,990	(91,401)
Prepaid expenses	(25,632)	(14,762)
GCVA	237,242	(93,441)
Accounts payable and accrued liabilities	815,117	(1,210,401)
	(124,934)	(3,381,448)
b) Interest paid during the year	4,333,905	2,905,031
c) Non-cash transactions		
Additions to property, plant and equipment included in accounts payable and accrued liabilities	3,486,538	9,017,030

14 Financial instruments

The carrying values of the Company's financial instruments (cash, accounts receivable, accounts payable and accrued liabilities and long-term debt) approximate fair value.

The Company is exposed to various risks through its financial assets and liabilities. The following provides an assessment of those risks as at December 31, 2008.

Credit risk

Financial instruments which potentially subject the Company to credit risk consists principally of accounts receivable from customers. Credit assessments are completed as required on new customers and deposits are requested on high risk accounts. The Company also maintains provisions for potential losses which are assessed regularly.

Interest rate risk

The Company is not exposed to interest rate risk as it has no debt which carries variable-rate interest.

14 Financial instruments (continued)

Foreign exchange risk

The Company is exposed to foreign exchange risk as its gas purchases are denominated in US dollars. Management believes that this risk is limited as foreign exchange losses (gains) will be fully recovered (repaid) in the gas cost recovery rate charged to the customer base.

Liquidity risk

Liquidity risk is the risk that the Company will encounter problems in raising funds to meet its commitments at maturity. The company is exposed to liquidity risk through its accounts payable, accrued liabilities and long-term debt (see note 9 for maturation details). Management believes that shareholders' loans will be renewed and increased as required to meet commitments not met by funds from operations.

	Carrying amount $	Contractual cash flows $	Term
Accounts payable and accrued liabilities	9,262,120	9,262,120	Within 90 days
Shareholders' loans	61,141,849	61,141,849	December 31, 2010
Province of Nova Scotia loan	4,009,981	5,600,000	July 31, 2012 – July 31, 2016
	74,413,950	76,003,969	

15 Related party transactions

Related party transactions with the Company's shareholders are recorded at their exchange amount. Related party transactions and balances were as follows:

	2008 $	2007 $
Operating and maintenance expenses	171,274	136,793
Interest expense	4,718,835	3,207,953
Guarantee fees	38,104	38,000
Accounts payable	141,210	155,759
Interest payable	1,316,507	931,580
Guarantee fees payable	9,520	9,500

16 Income taxes

As at December 31, 2008, the Company has approximately $32,550,000 in income tax loss carryforwards available to reduce future income taxes. These loss carryforwards expire as follows:

	$
Year ending December 31, 2010	1,218,000
2014	4,173,000
2015	3,963,000
2026	7,018,000
2027	7,593,000
2028	8,585,000

As of December 31, 2008, the unrecorded future income tax assets of the Company are approximately $3,563,000 (2007 - $2,489,000).

17 Subsequent event

On January 8, 2009, the shareholders advanced a total of $3,300,000, representing an additional $937,750 in common shares and $2,362,250 in loans.

18 Comparative figures

Certain comparative figures have been reclassified to conform to the current financial statement presentation.